

Current	Previous
<b>CMP : Rs 396</b>	
<b>Rating : BUY</b>	<b>Rating : NR</b>
<b>Target : Rs 678</b>	<b>Target : NR</b>

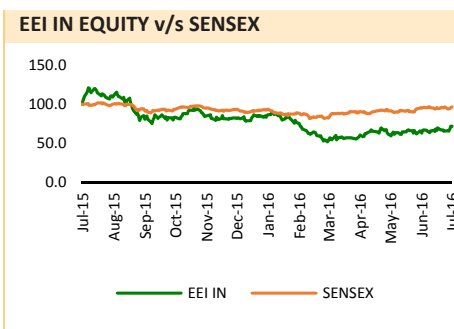
(NR-Not Rated)

STOCK INFO	
INDEX	
BSE	523708
NSE	EIMCOELECO
Bloomberg	EEI IN EQUITY
Reuters	EIMC.BO
Sector	Capital Goods
Face Value (Rs)	10
Equity Capital (Rs mn)	58
Mkt Cap (Rs mn)	2,284
52w H/L (Rs)	695 / 276
Avg Daily Vol (BSE+NSE)	2,684

SHAREHOLDING PATTERN	%
(as on March 2016)	
Promoters	74.1
FIIIs	-
DIIIs	4.8
Public & Others	21.1

STOCK PERFORMANCE(%)	3m	6m	12m
EEI IN EQUITY	18.9 (16.6)	(31.6)	
SENSEX	6.9	5.9	(3.4)

Source: Bloomberg, IndiaNivesh Research



Source: Bloomberg, IndiaNivesh Research

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*Eimco Elecon (India) Ltd is in the business of Manufacturing, Marketing and Servicing Equipment for Mining and Construction. It is one of the leading suppliers of underground coal mining equipments in India. It was first to introduce the intermediate technology of Side Dump Loaders (SDLs), Load Haul Dumpers (LHDs) and Rocker Shovel Loaders in India to partially mechanize the underground Coal and metalliferrous mines and continue to be market leader since then. In addition the spares business which is a high margin business provides a stable cashflow and contributes around 50% in overall sales. Introduction of new products and entry into open cast mining products to act as a key catalyst for the stock. Further the company has strong balance sheet with liquid investment of Rs.198/share. We initiate coverage on Eimco Elecon (India) Ltd and recommend BUY on the stock with SOTP based target price of Rs 678.*

**Key Investment Rationale**

- Market Leader in the underground coal mining equipment industry with 90% market share
- Coal ministry plans to revise equipment purchase policy to increase mining efficiency which would boost Eimco Elecon's earnings
- Steady revenue from Spares and components segment (high margin business) to continue support earnings
- Foray in open casting mining would drive revenue and profitability
- Strong Balance Sheet with liquid investment of Rs.198/share
- Strong parent company support

**Risk**

- Higher dependence on Coal India Ltd and its subsidiaries
- Threat from foreign players entering into this segment

**Valuation**

Government thrust to increase underground coal mining activity in India will have positive effects on the demand for underground mining equipments. We believe Eimco Elecon would be the key beneficiary of the increase in equipment demand. We expect the sales of the company to grow at CAGR of 22% from FY16-FY18e on account of pickup in coal mining activities and introduction of new products. At CMP of Rs 396, Eimco Elecon is trading at a P/E multiple of 11.7x FY17e and 9.5x FY18e, EPS of Rs 33.8 and Rs 41.8 respectively. Eimco Elecon during its peak period of FY04-09 was trading at an average PE of 14.42x and during FY10-16 it was trading at an average PE of 8.56x. The average historic PE comes to 11.5x and so we value Eimco Elecon at 11.5x FY18e EPS and Investments at Rs 198. We recommend 'BUY' rating on the stock with SOTP based target of Rs 678.

**Financial Performance**

YE March (Rs Mn)	Net Sales	EBITDA	Adj.PAT	Adj.EPS (Rs)	EBITDA Margin	RoE(%)	Adj.P/E(x)	EV / EBITDA (x)
FY14	1,934	290	202	34.9	15.0	11.3	11.3	6.0
FY15	1,964	294	215	37.3	15.0	11.0	10.6	5.7
FY16	1,396	226	166	28.8	16.2	7.9	13.7	5.9
FY17E	1,685	262	195	33.8	15.6	8.6	11.7	4.8
FY18E	2,065	325	241	41.8	15.7	9.8	9.5	3.9

Source: Company, IndiaNivesh Research

## Investment Rationale

### 1. Market Leader in the underground coal mining equipment industry

*The company is the market leader in underground coal mining equipments (high technology drills, loaders etc) with a market share of 90%.*

The company is the market leader in underground coal mining equipments (high technology drills, loaders etc) with a market share of 90%. The company has technical collaboration agreements with Ahlmann Baumaschinen GmbH, Germany for manufacture of Front End Articulated Loader and with Huta Stalowa Wola, S.A Poland for manufacture of 520G Wheel Loader.

Eimco Elecon is an established player in this industry with over 20 years track record, 85% of the business comes from CIL and its subsidiaries. The company's in house facilities enables them to design and manufacture wide range of equipments. Emtici Engineering is a group company which handles the marketing and after-sales services for Eimco Elecon's products. Emtici's branch offices are spread across India which helps Eimco Elecon remain closer to its customers and offer quick maintenance and break-down support services. Further, introduction of new equipments will lead to de-risking of the business. The company has diversified its current business and has forayed in a new product the Chair Lift Man Riding System.

Turnover (Rs Mn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17e	FY18e
Tunneling Loaders	877	896	621	781	886	392	691	818
Air motors (Captive use)	5	7	6	4	4	4	5	6
Spares	904	772	1008	1046	990	897	855	1038
Construction Equip	40	38	69	53	49	40	50	56
Chair Lift System	0	0	0	0	29	54	84	148
Others	17	55	0	38	0	0	0	0
<b>Total</b>	<b>1844</b>	<b>1768</b>	<b>1704</b>	<b>1922</b>	<b>1957</b>	<b>1388</b>	<b>1685</b>	<b>2065</b>

Source: Company filings, IndiaNivesh Research




*Higher sale of underground equipment will drive revenue for Spares business.*




Government's thrust to increase underground mining activity in India will have positive effects on the demand for underground mining equipments. In the line with growth of underground mining activity there will be growth in demand for underground mining equipments and will be supported by the spare replacement demand. As the equipments require frequent servicing and maintenance, a strong after-sales service network is the key requirement. This acts as an entry barrier for new players in the domestic market as well as for the products imported. Competitors for Eimco Elecon in UG segment include - Simplex Engineering & Foundry Works (~5-6% market share), TRF (A Tata Enterprise) - (<1% market share), BEML Ltd (new entrant in the market) - (<1% market share). International players include- Joy Mining & Machinery and Bucyrus International.

**Eimco Elecon (India) Ltd Products:**

**Coal Mining Loaders:**




*Coal Mining loaders form a major part of revenue for Eimco Elecon.*

811 – Load Haul Dumper	811 – Load Haul Dumper (Low Height)	912E – Load Haul Dumper
		
<b>Features include:</b> - It has high strength and impact resistant structure, extra-large cooling system and tank capacity, option of different types of bucket like bi-directional conveyor bucket, cross seating operator position for better bi-directional visibility and safety and simple hydraulics for ease of maintenance.	<b>Features include:</b> - It has high strength and impact resistant structure, extra-large cooling system and tank capacity, Option of different types of bucket like bi-directional conveyor bucket, cross seating operator position for better bi-directional visibility and safety and simple hydraulics for ease of maintenance.	<b>Features include:</b> - It has higher payload for increased productivity, high tilt combination and mechanical breakout force for efficient and single pass loading, fingertip controls for reduced fatigue and simple hydraulics for ease of maintenance

912CH – Coal Hauler	625 – Side Dump Loader	611 – Side Dump Loader
		
<b>Features include:</b> - All operations are fully hydraulic, higher payload for increased productivity, simple hydraulics for ease of maintenance, bottom discharge hopper bucket for effective unloading and less maintenance, fingertip controls for reduced fatigue.	<b>Features include:</b> - It is robust and versatile machine for toughest underground application, ergonomically designed machine for operator's comforts without negotiating with the safety, modular design for ease of assembly, transportation and maintenance, extra large tank capacity with HFB fluid.	<b>Features include:</b> - It is a low height machine, which can operate in seam as low as 1.2 m, variable travel speed for lowest cycle time vis-a-vis highest productivity, fingertip controls for reduced fatigue, energy conservation through load sensing tramping controls and 30% less power consumption.

**Coal Mining drillers:**

*Coal Mining drillers to remain as key product for Eimco Elecon.*

611 – Universal Drill Machine	612 – Universal Drill Machine (Low Height)	Air Motors (captive use)
		
<b>Features include:</b> - It has rotary drill which ensures fast drilling speed, with 360 rotation for fast and easy face & roof drilling, powerful crawler carrier ensured fast and safe maneuvering in narrow drifts and under low coal seams, maximum penetration	<b>Features include:</b> - It has rotary drill which ensures fast drilling speed with 360 rotation for fast and easy face & roof drilling, powerful crawler carrier ensures fast and safe maneuvering in	<b>Features include:</b> - It is used as captive feedstock where oil slingers are permanently fastened; to distribute oil to all working parts and keep cylinders well lubricated, Large streamlined air passage reduce



*Air motors is used as a feedstock by Eimco Elecon.*

speed to complete full face drilling in a minimum time and to maximize production.	narrow drifts, compact feed for low roof height and for minimum maintenance.	drag and increase H.P. - provide efficient use of consumed air.
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**Metal Mining Loaders:**

*Metal mining loaders to continue to remain a minor contributor for Eimco Elecon.*

912B MK II – Load Haul Dumper	Low Profile Dump Truck	21B – Rocker Shovel Loaders
		

824 – Rocker Shovel Loader	150/1000B – Hopper Loader	AL 120 – Articulated Wheel Loader
		

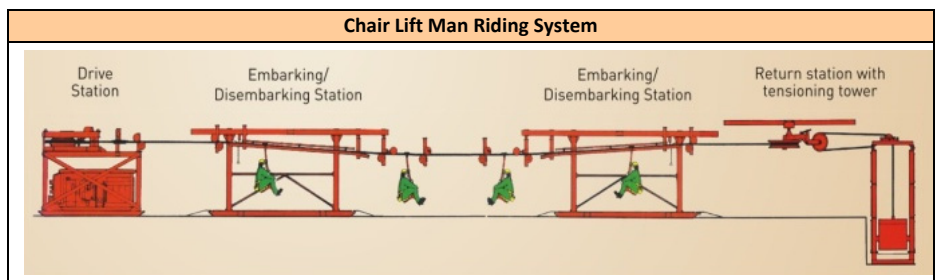
AL 520 – Articulated Wheel Loader

<b>Features include:</b> - It has hydrostatic steering system, single Lever operation, electrically controlled transmission

**Chair Lift Man Riding System:**

This is a new product addition which saves time and increase the efficiency of labourers. This system is safe and comfortable for transporting persons fast in underground mines over long distances. The transportation includes mine gradients and curves.

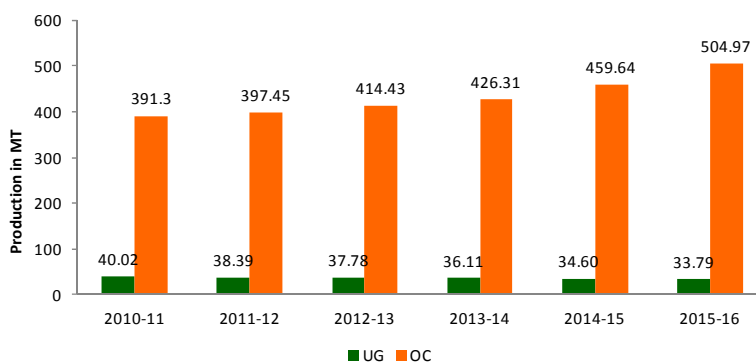
*Chair lift man riding system a new addition to the product lines will improve revenues for Eimco Elecon and serve its clients better.*



**2. Coal ministry plans to revise equipment purchase policy to increase mining efficiency which would boost Eimco Elecon’s earnings**

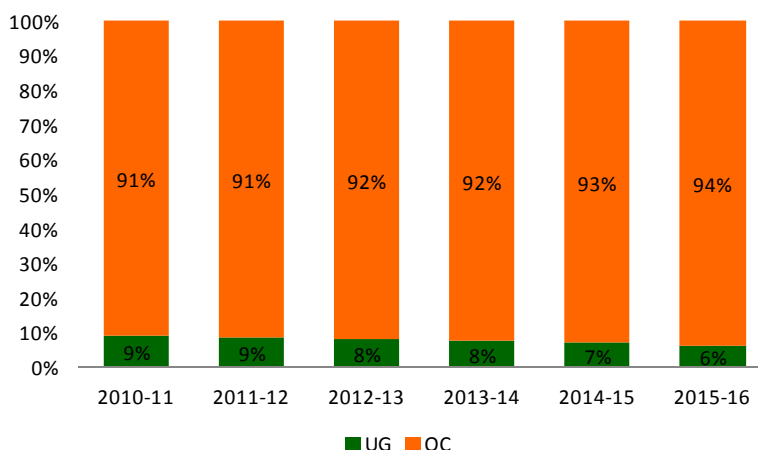
Coal India Limited has 430 mines of which 227 are underground, 175 opencast and 28 mixed mines as on FY15. 301.56 Billion tonnes of Geological Resources of Coal have so far been estimated in the country as on FY15.

**CIL production in million ton (MT)**



Source: Ministry of coal; IndiaNivesh Research

**India’s UG & OC share of total production**

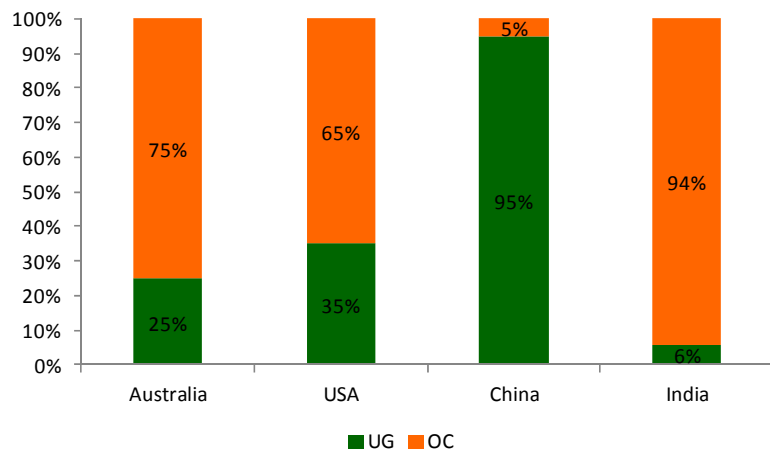


Source: Ministry of coal; IndiaNivesh Research

India’s underground mining share stand at 6% which is quite low.

The production of coal from underground (UG) mines has been on a steady decline from FY90 to FY07. Nearly 41% of the coal reserves in India are below 300 m depth, the contribution of underground coal production has declined from 35% in FY90 to only 6% in FY16. UG mines contribute ~25% of production in Australia, ~35% in the US and ~95% in China. China has maintained focus on underground mining as it results in less pollution than open cast mining.

CIL’s worker productivity ie. Output per man-shift (OMS) stands at 4.92 tonne which is much below its target of 5.54 tonne. The global average is around 13 tonne per man shift. Productivity in underground mining is less than a tonne per man each shift against a global average of 10 tonne per man each shift. CIL absorbs a loss of nearly Rs 100 bn a year on UG operations, employing 75 per cent of its four lakh workforce.

**Underground Mining contribution in leading countries**

*UG mines contribute ~25% of production in Australia, ~35% in the US and ~95% in China.*

Source: ET; IndiaNivesh Research

*CIL plans to boost annual production to 1 bn tonnes by 2020 through introduction of better technological equipments.*

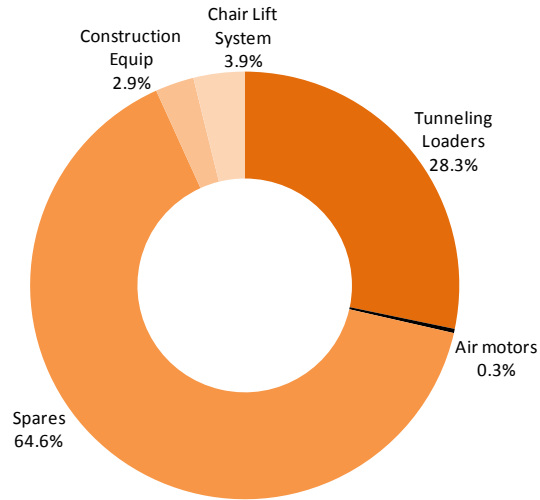
The Government has announced plans to boost Coal India's annual production to the level of 1 billion tonnes by 2020 and this requires significant investment in mechanization of existing mines and fast tracking mine development activity in new mines. The coal ministry is expected to soon revise its equipment procurement policy to increase mining efficiency. CIL strategy to improve mine productivity would be through technology upgradation in opencast and underground mines with induction of high capacity equipment. Improved technology will make underground mines more efficient with addition of man riding system in major mines and use of tele monitoring techniques.

The planning commission, has recommended full mechanisation of underground mines by 2017. Coal Ministry is currently developing an incentive package that may inject new life into its underground mining industry. Some of the incentives would include things like differential royalty rates and investment-linked tax holidays.

We believe Emico Elecon would be the key beneficiary of the increase in equipment demand. Also, as the average life of SDL (Side Dump Loader) /LHD (Load Haul Dumper) equipment is between six and ten years, the spares replacement demand will also continue to support Eimco Elecon's revenues.

**3. Steady Revenue from Spares and components segment to continue**

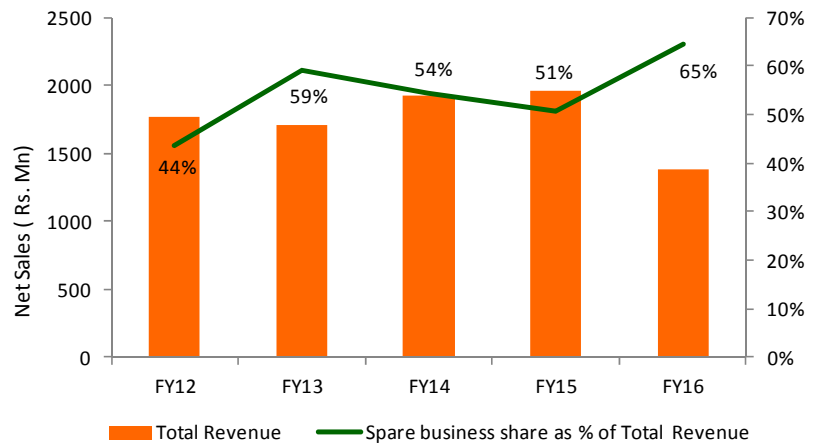
**Revenue Breakup (FY16)**



In FY16, spares business contributed about 65% and loaders contributed about 28% to the revenue.

Source: Company filings, IndiaNivesh Research

**Revenue Breakup (FY16)**



Eimco Elecon (India) recently introduced Chair lift man riding system which contributed about 3.9% in FY16.

Source: Company filings, IndiaNivesh Research

The mining equipments operate in a tough environment and hence, require frequent replacement of hydraulics, electronics and other spares. Spares sales constitute above 50% in Elecon’s revenues and enjoy higher margins than equipment sales. In FY16 this business contributed about 65% to total revenue. As per our understanding spare business earns about 30-35% higher EBITDA margin than the equipment business. Increased sales of equipment in the future will lead to an improvement in the demand for Spares.



#### 4. Foray in open casting mining would drive revenue and profitability

*Eimco Elecon's non-compete agreement with Sandvik is coming to an end, which will help them enter in open cast mining equipments which will add to the earnings*



Open casting in India currently constitutes more than 90% of total mining. The rise in production from opencast mines has been seen which is increasing at a greater rate than underground mines.

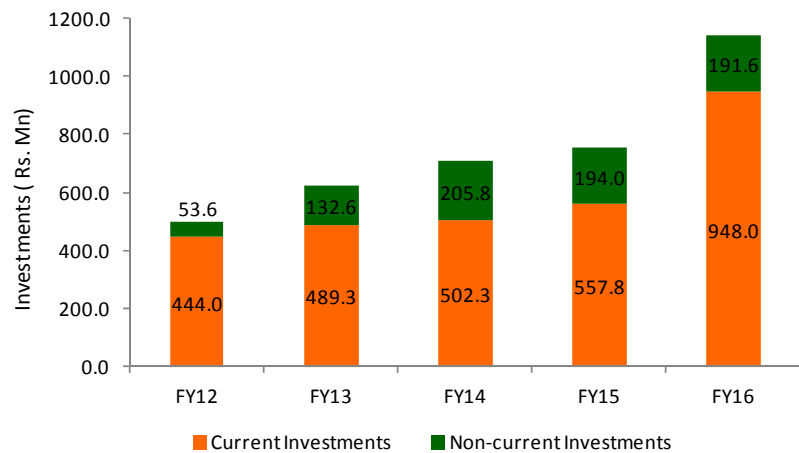
Equipment utilisation by Coal India Limited (CIL) is still not at the level of global best. It needs to adopt better equipment utilisation practices from across the globe for best-in-class mining. Some of the leading competitors in the world that supply open cast mining equipments include: - Caterpillar Inc., Hitachi Construction Machinery, Joy Global Inc., Komatsu Limited, Sandvick AB, and Atlas Copco.

Eimco Elecon (India) Ltd had signed a non-compete agreement with its stakeholder 'Sandvik' that it would not enter open cast mining products for five years and had sold its surface drilling machines business to them in FY11 for Rs 165 mn. This agreement is to expire in August 2016 which will allow Eimco Elecon to manufacture and sell products in open casting segment. Eimco Elecon has already started R&D on new products that it could manufacture and serve its existing clients and add new clients. This will improve the sales for the company and make a mark in open cast mining segment. It is also looking to manufacture open cast mining drillers. Continuous R&D facility and tieups for technology has helped Eimco Elecon develop new products to serve the Indian market.

#### 5. Strong Balance Sheet

- Eimco Elecon has been maintaining its financial risk profile over the medium term, supported by its healthy capital structure and steady cash accruals. The company has remained debt-free since FY10 with steady accruals funding its nominal capital expenditure and working capital requirements.
- The company has strong balance sheet with current and non-current investments amounting to Rs 1140 mn (per share value of Rs 198). Under investments, non-current are mostly in listed shares, while current investments are mostly in liquid mutual funds. The company is debt free as it has no short term and long term loans. Receivables, Inventories and other working capital parameters are kept under strict check by the company through continuous monitoring.
- Eimco Elecon's strong balance sheet provides an added advantage to weather any future downturns.



**Current & Non-current Investments (Rs. mn)**

Source: Company, IndiaNivesh Research

## 6. Strong parent company support

*Eimco Elecon has strong parental support from Eimco group of companies and Elecon group.*

- Eimco Group of Companies - Subsidiary division named as Eimco mining equipment are world leader in production of underground mining machinery. Elecon Engineering and Eimco Group of Companies entered into collaboration under which Eimco Elecon received necessary technical know-how from Eimco Group of Companies for production of underground mining machineries.
- In 1989, Eimco Group of companies were acquired by Tamrock OY., a world leader in technology and manufacturing of rock excavation and breaking equipments for surface and underground mines and civil engineering construction with production and assembly facilities in various parts of the world backed by worldwide sales and distribution network.

Internationally, Tamrock holds close to 40% market share in the mining machinery business. It is a leading supplier of drilling and loading equipments for hard rock applications.

Eimco Elecon was established in 1974.

It was a joint venture between Elecon Engineering Company and Envirotech Corporation, US (a subsidiary of Baker Hughes).

Envirotech was active in the mining business through its division Eimco Mining Equipment Group.

In 1989, the Eimco mining division was taken over by the Finnish Industrial Organisation OY Tampella whose mining equipment division - Tamrock was a market leader with over 40% share internationally.

Tamrock Great Britain Holdings (a subsidiary of OY Tampella) held around 39% of Eimco Elecon's Rs 24.7 mn equity till the Dec 1992 issue, later it's holding decreased to 25.1%.

Tamrock's major shares and controlling interest was acquired by Sandvik Group of Sweden in 1997 and the name was changed to Tamrock Corp.

Sandvik AB holds 25.1% stake in Eimco Elecon (India) Ltd

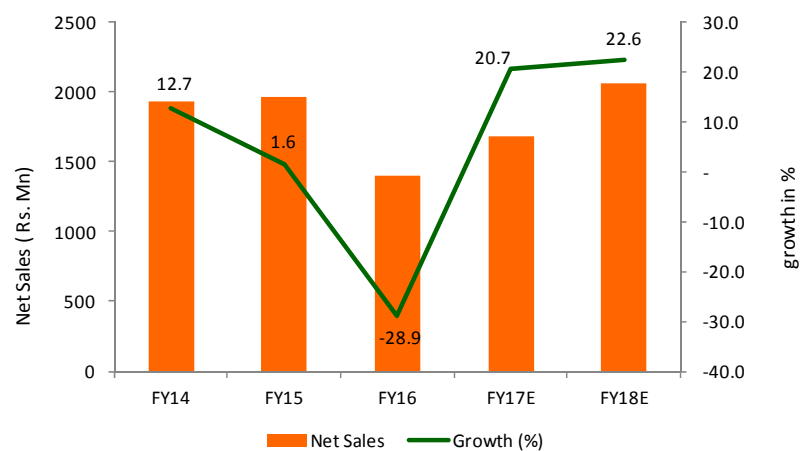
Source: Company; Indianivesh Research

- Sandvik group, the foreign promoter, currently holds a 25.1% stake in Eimco Elecon through its subsidiary Tamrock Great Britain Holding.
- Elecon group of companies continues to be market leader since its establishment in 1951, in manufacture of material handling Equipment & related projects in India and having diversified interests in Wagon tipplers, Reclaimers, Industrial Gear Boxes, Industrial Geared Motors, Industrial Electro Magnets, Wagon Loaders, Various Electronic Equipment, etc.

## Financials:

### Net sales to grow at CAGR of 22% from FY16-FY18e

#### Net Sales (Rs. mn) and growth (%)



*Eimco Elecon (India) net sales is expected to grow at CAGR of 22% from FY16-FY18e.*

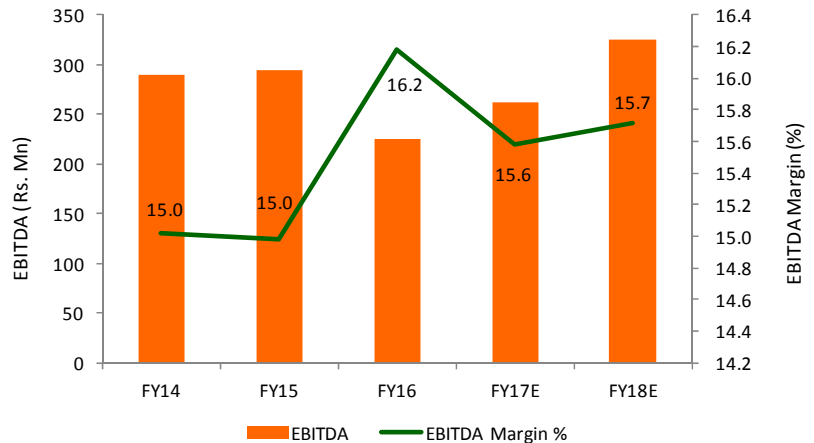
Source: Company, IndiaNivesh Research

Net sales de-grew by 28% in FY16 due to lower revenue from equipment business. This was on account of lower number of orders from Coal India. Going ahead, Coal India Ltd with a vision to produce 1 bn tonnes of coal by 2020 will lead to higher number of tenders and will result in increased sales for Eimco Elecon (India) Ltd who supplies about 90% of coal India's underground equipment. We expect Eimco Elecon's revenues to grow at a CAGR of 22% from FY16-FY18e. Overall equipment sales are expected to grow at 44.4% CAGR over FY16-18e to Rs 1.02 bn driven by increased underground mining activity in India and new product launches by the company. Spares sales are expected to grow at 7.6% CAGR over FY16-18e to Rs. 1.04 bn.

**EBITDA margin to sustain near 15.5-16%**

**EBITDA and EBITDA margin (%)**

*Eimco Elecon (India) to continue to maintain higher EBITDA margins due to higher share of Spares business to revenue.*



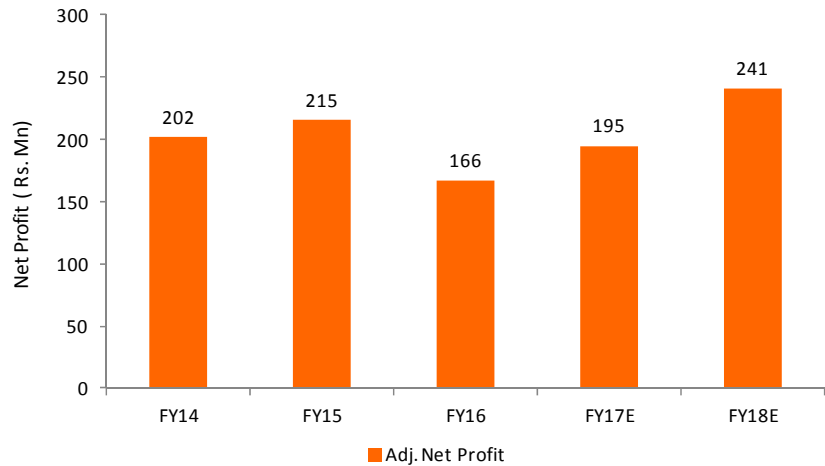
Source: Company, IndiaNivesh Research

In FY16, Spare business revenue share rose to 65% (vs 51% in FY15) which helped it achieve 16.2% EBITDA margin. We expect spares business will continue to contribute around 50% to total revenue and overall EBITDA margin to sustain near 15.5-16%.

**Net profit expected to grow at CAGR of 20.34% for FY16-FY18e**

**Net Profit (Rs. mn)**

*Eimco Elecon (India) net profit is expected to grow at CAGR of 20.34% for FY16-FY18e on back of higher sales of better margin business.*

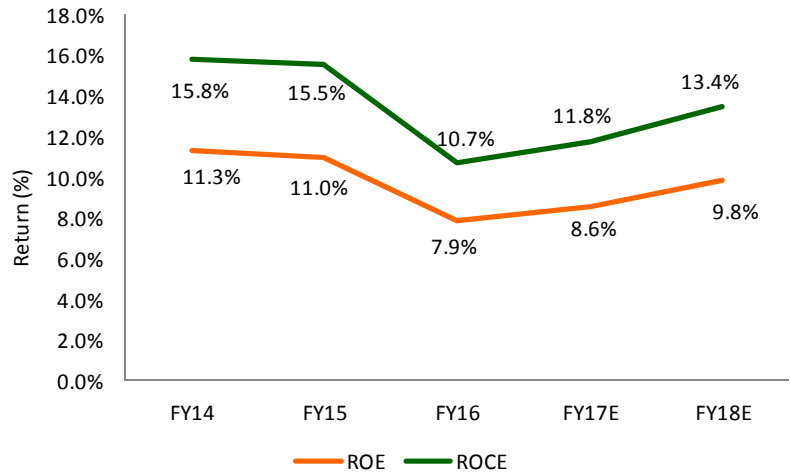


Source: Company, IndiaNivesh Research

Net profit is expected to grow at CAGR of 20.34% for FY16-FY18e on back of improved sales and better EBITDA margin. Spares business will continue to drive profits and new product 'Chair lift man riding system' is also expected to grow as coal extractors look to use improved technology.

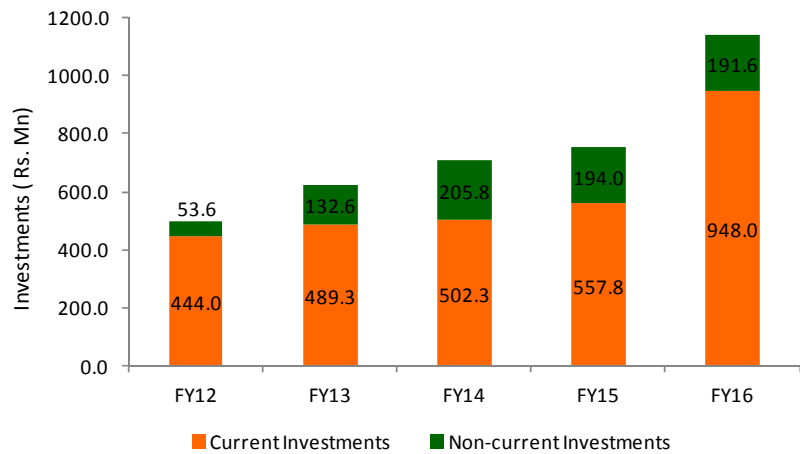
*Eimco Elecon (India) return ratios to improve on back of better revenues visibility*

**Return Ratios (%)**



Source: Company, IndiaNivesh Research

**Current & Non-current Investments (Rs. mn)**



Source: Company, IndiaNivesh Research

The company has strong balance sheet with current and non-current investments amounting to Rs 1140 mn in FY16. Non-current investments are mostly in listed shares, while current investments are mostly in liquid mutual funds. The company is debt free as it has no short term and long term loans. Receivables, Inventories and other working capital parameters are kept under strict check through continuous monitoring.

### Peer Comparison

Peer group comparison (FY16)	Sales (Rs mn)	EBITDA margin (%)	PAT (Rs mn)	ROE (%)	ROCE (%)	PE (X)
Eimco Elecon (India) Ltd	1396	16.2	166	7.9	10.7	13.7
BEML	29574	4.4	531	2.5	3.5	66.5
TRF Ltd	11225	2.7	(363)	NA	0.9	NA
Revathi Equipment Ltd	2455	14.3	207	13.8	12.7	11.4
TIL Ltd	16835	6.2	(436)	NA	2.2	NA

Source: Bloomberg; Capitaline; IndiaNivesh Research

Eimco Elecon (India) Ltd is one of the leaders in mining equipments in India and mainly serves CIL. It has better EBITDA margins and decent return ratios when compared with its peers in mining equipment and material handling space. During FY16 it witnessed its lowest sales in last five years due to lower revenue from equipment business. This was on account of lower number of orders from CIL. Revathi Equipments has lower EBITDA margins, while BEML is a new entrant in mining equipments space and is trading at very high PE. TRF Ltd and TIL Ltd are mainly into material handling business and currently both are making losses.

**Eimco Elecon India Limited (EIL)** is in the business of Manufacturing, Marketing and Servicing Equipment for Mining and Construction. It is one of the major player in Underground Mining Equipments. The range of equipments includes side dump loaders, load haul dumpers, rocker shovel loaders, front end loaders, blast hole drill, coal haulers, dump truck, air motors, universal drilling machine and continuous miners.

**BEML Limited**, plays a pivotal role and serves India's core sectors like Defence, Rail, Power, Mining and Infrastructure. It has three major Business verticals - Mining & Construction, Defence and Rail & Metro are serviced by its nine manufacturing units. BEML Limited offers a comprehensive and diverse range of mining machinery for both opencast and underground mines. BEML produces machines such as Electric Rope Shovels, Hydraulic Excavators, Bulldozers, Wheel Loaders, Wheel Dozers, Dump Trucks, Motor Graders, Pipe Layers, Tyre Handlers, Water Sprinklers and Backhoe Loaders. Besides, BEML also manufactures mammoth Walking Draglines for cost-effective operations in the opencast mines. BEML has ventured into underground mining with products such as Side Discharge Loader, Load Haul Dumper, Winch, Winder, Granby Car, Skip etc.

**TRFL**, formerly known as Tata-Robins-Fraser, was incorporated in 1962. It services core industries like power, mining, coal, fertilisers, cement, ports, etc. The company is diversified to manufacture underground mining machinery like side discharge loaders and load haul dumpers and has acquired the stamp-charging technology for coke-oven machinery in technical collaboration with German firms. TRFL entered into an agreement with Italiampianti, Italy, for the supply of the latest technology covering yard equipment such as stackers, reclaimers, stackers-cum-reclaimers, ship-loaders, etc. It also provides engineering and technology for Mini Blast Furnaces, Coal Dust Injection Systems for Blast Furnaces and Stamp Charging and Pushing Equipment for Coke Ovens.

**Revathi Equipment Ltd (REL)** is a leading manufacturer of blast hole drills and water well drills for various applications like mining, construction, water well, exploration,

etc. REL's drilling rigs are used extensively in mines such as coal, copper, gold, iron, zinc, phosphate, bauxite, lignite, limestone, etc. It offers a range of drill rigs, such as C850, C750 and C2532 for mining applications. The rigs are used to drill blast holes of diameters ranging from 102 millimeters to 349 millimeters. The drills are crawler-mounted, diesel engine/electric motor driven, hydraulically operated and rotary/down-the-hole (DTH). The Company offers Jackless drill rigs, including C625H, HHTD and LHTD for construction activity, such as road, dam, irrigation canal and quarrying, among others. The Company offers a range of hydraulic top-drive and table-drive rigs for borehole drilling.

**TIL Limited** is engaged in manufacturing and marketing of a range of material handling, lifting, and port and road construction solutions, with customer support and after-sales service. The Company's operating segments include Material Handling Solutions (MHS), Construction and Mining Solutions (CMS), and Power Systems Solutions (PSS). MHS is engaged in manufacturing and marketing of various material handling equipment, such as mobile cranes, port equipment, road construction equipment and self-loading truck cranes, among others, and dealing in spares and providing services to related equipment.

## Key Risks

### 1. Higher dependence on Coal India Ltd.

CIL remains the single largest client and it contributes about 85% to Eimco Elecon's revenue. Eimco Elecon has about 90% of CIL's underground equipment market share.

Despite efforts by the company to diversify its client base, we believe CIL would remain the single largest client for Eimco Elecon over the next few years, contributing over 82-85% to revenues. The increasing development of coal mines by private sector players and the scale-up of construction equipment business would be critical for diversifying the client risk.

### 2. Threat from foreign players and rise in domestic competition

We see more and more foreign players entering into this segment, which is a threat for the company's growth and even domestic competition will be intensified.

## Outlook & Valuation

Government thrust to increase underground coal mining activity in India will have positive effects on the demand for underground mining equipments. We believe Eimco would be the key beneficiary of the increase in equipment demand. We expect the sales of the company to grow at CAGR of 22% from FY16-FY18e on account of pickup in coal mining activities and introduction of new products. At CMP of Rs 396, Eimco Elecon is trading at a P/E multiple of 11.7x FY17e and 9.5x FY18e, EPS of Rs 33.8 and Rs 41.8 respectively. Eimco Elecon during its peak period of FY04-09 was trading at an average PE of 14.42x and during FY10-16 it was trading at an average PE of 8.56x. The average historic PE comes to 11.5x and so we value Eimco Elecon at 11.5x FY18e EPS and Investments at Rs 198. We recommend 'BUY' rating on the stock with SOTP based target of Rs 678.



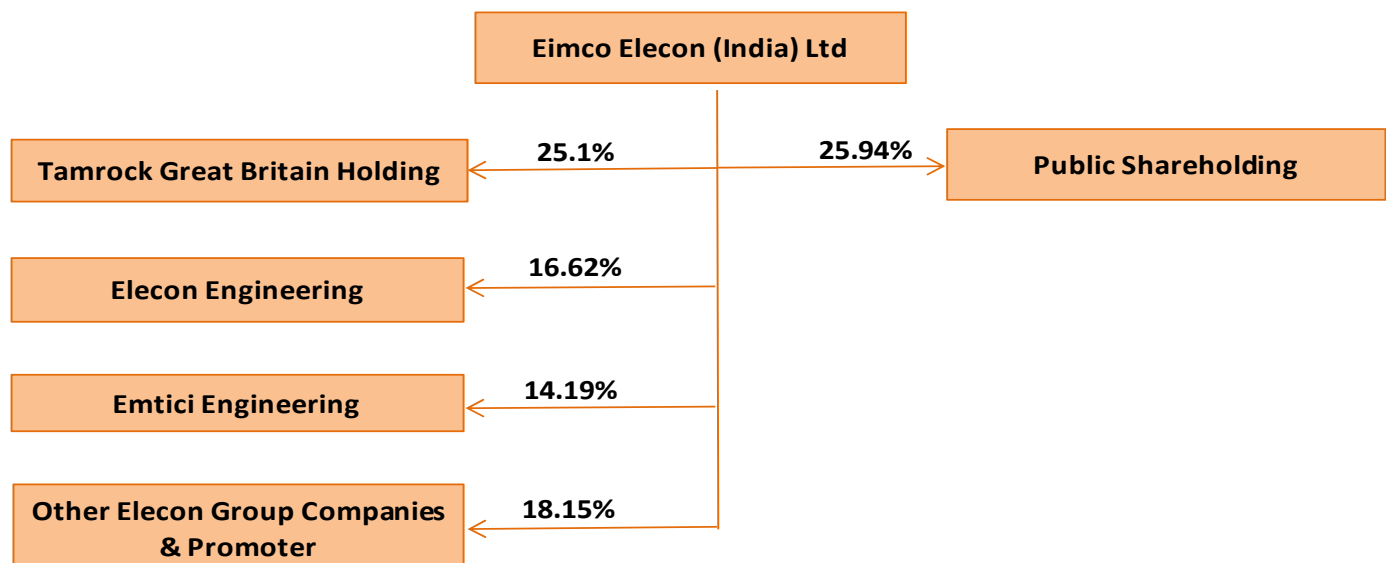
## Company Background

Eimco Elecon India Limited is in the business of Manufacturing, Marketing and Servicing Equipment for Mining and Construction. It was incorporated in 1974 as a joint venture of ELECON Group of India and Eimco. It is one of the major player in Underground Mining Equipments. The range of equipments includes side dump loaders, load haul dumpers, rocker shovel loaders, front end loaders, blast hole drill, coal haulers, dump truck, air motors, universal drilling machine and continuous miners. It has a manufacturing plant at Vallabh Vidyanagar.

Eimco Elecon (India) Limited was first to introduce the intermediate technology of Side Dump Loaders (SDLs), Load Haul Dumpers (LHDs) and Rocker Shovel Loaders in India to partially mechanize the underground Coal and metalliferrous mines (minerals which cannot be called coal or lignite) and continue to be market leader since then.

The company has produced more than 2550 Nos. of machines, which are working successfully at various mining and construction sites in India and abroad. It provides sales and after sales support through the net work of branch offices and parts depots across the country - Asansol, Bilaspur, Dhanbad, Kolkata, Nagpur, Secunderabad, Bangalore, Chennai, Jamshedpur, Mumbai and New Delhi.

### Shareholding Structure



Source: Company; Indianivesh Research

## Network



■ HEAD OFFICE | ● SALES OFFICE | ▲ SERVICE CENTER | ■ SPARES DEPOT  
 Source: Company; Indianivesh Research

**EMTICI Engineering Ltd** is the marketing & servicing company for EIMCO products in India. All its branches are equipped with exclusively trained application and after sales service engineers to serve their clients. The company also have a closely knit dealer network supported by a team of service engineers looking into daily requirements of clients.

Eimco Elecon remain closer to its customers and offer quick maintenance and breakdown support services. Eimco Elecon collaborates with foreign partners for technology sourcing and introduction of newer products.

### Associated Companies:

#### Eimco Elecon Electricals Limited

Company holds 47.62% of Equity Shares of Eimco Elecon Electricals Ltd. It is involved in manufacture of electric equipment for Material handling equipment, power transmission products, air motors, hydraulic cylinders, load haul dumpers, drillers, etc.

#### Wizard Fincap Limited

Company holds 24.95% of Equity Shares of Wizard Fincap Ltd. It came into existence for financial intermediation other than that conducted by monetary institutions. Currently the company is into logistics activities.

**Income Statement (Consolidated)**

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
<b>Net sales</b>	<b>1,934</b>	<b>1,964</b>	<b>1,396</b>	<b>1,685</b>	<b>2,065</b>
Growth (%)	13	2	(29)	21	23
Operating expenses	(1,644)	(1,670)	(1,170)	(1,422)	(1,741)
<b>Operating profit</b>	<b>290</b>	<b>294</b>	<b>226</b>	<b>262</b>	<b>325</b>
Other operating income	0	0	0	0	0
<b>EBITDA</b>	<b>290</b>	<b>294</b>	<b>226</b>	<b>262</b>	<b>325</b>
Growth (%)	33.3	1.3	(23.2)	16.2	23.7
Depreciation	(51)	(43)	(37)	(42)	(52)
Other income	44	54	39	47	57
<b>EBIT</b>	<b>283</b>	<b>305</b>	<b>228</b>	<b>267</b>	<b>330</b>
Finance cost	(3)	(5)	(3)	(4)	(5)
Exceptional item	0	0	0	0	0
<b>Profit before tax</b>	<b>280</b>	<b>301</b>	<b>225</b>	<b>263</b>	<b>326</b>
Tax (current + deferred)	(79)	(86)	(58)	(68)	(85)
<b>Profit / (Loss) for the period</b>	<b>202</b>	<b>215</b>	<b>166</b>	<b>195</b>	<b>241</b>
Associates, Min Int	0	0	0	0	0
<b>Reported net profit</b>	<b>202</b>	<b>215</b>	<b>166</b>	<b>195</b>	<b>241</b>
Extraordinary item	0	0	0	0	0
<b>Adjusted net profit</b>	<b>202</b>	<b>215</b>	<b>166</b>	<b>195</b>	<b>241</b>
Growth (%)	33	7	(23)	17	24

Source: Company, IndiaNivesh Research

**Balance Sheet (Consolidated)**

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
Share capital	58	58	58	58	58
Reserves & surplus	1,817	1,991	2,123	2,289	2,501
<b>Net Worth</b>	<b>1,875</b>	<b>2,049</b>	<b>2,181</b>	<b>2,346</b>	<b>2,559</b>
Minority Interest	0	0	0	0	0
<b>Total Liabilities</b>	<b>373</b>	<b>390</b>	<b>323</b>	<b>360</b>	<b>451</b>
<b>Non-current liabilities</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>6</b>
Long-term borrowings	0	0	0	0	0
Deferred tax liabilities	2	0	0	0	0
Other Long term liabilities	5	6	6	5	6
Long term provisions	0	0	0	0	0
<b>Current Liabilities</b>	<b>366</b>	<b>384</b>	<b>317</b>	<b>355</b>	<b>445</b>
Short term borrowings	0	0	0	0	0
Trade payables	243	273	202	243	298
Other current Liabilities	74	54	64	64	89
Short term provisions	49	57	52	47	58
<b>Total Liabilities and Equity</b>	<b>2,248</b>	<b>2,439</b>	<b>2,503</b>	<b>2,706</b>	<b>3,010</b>
<b>Non Current Assets</b>	<b>411</b>	<b>530</b>	<b>528</b>	<b>598</b>	<b>686</b>
Net Block	175	281	301	360	446
Goodwill	0	0	0	0	0
Non-current Investments	206	194	192	192	192
Long-term loans and advances	30	48	26	37	39
Deferred tax Assets	0	6	10	10	10
Other non current Assets	0	0	0	0	0
<b>Current Assets</b>	<b>1,837</b>	<b>1,909</b>	<b>1,976</b>	<b>2,108</b>	<b>2,324</b>
Inventories	253	309	377	312	382
Sundry Debtors	957	884	518	655	803
Cash & Bank Balances	40	43	15	75	62
Other current Assets	0	0	0	0	0
Loans & Advances	84	115	117	118	128
Current Investments	502	558	948	948	948
<b>Total (Assets)</b>	<b>2,248</b>	<b>2,439</b>	<b>2,503</b>	<b>2,706</b>	<b>3,010</b>

Source: Company, IndiaNivesh Research

**Cash Flow Statement (Consolidated)**

Y E March (Rs m)	FY14	FY15	FY16	FY17E	FY18E
<b>Profit before tax</b>	<b>280</b>	<b>301</b>	<b>225</b>	<b>263</b>	<b>326</b>
Depreciation	51	43	37	42	52
Change in working capital	(93)	(14)	252	(47)	(140)
Total tax paid	(83)	(93)	(62)	(68)	(85)
Others	(41)	(50)	(36)	(43)	(53)
<b>Cash flow from operations (a)</b>	<b>114</b>	<b>187</b>	<b>416</b>	<b>147</b>	<b>100</b>
Capital expenditure	(38)	(150)	(56)	(101)	(138)
Change in investments	(86)	(44)	(388)	0	0
Others	44	54	39	47	57
<b>Cash flow from investing (b)</b>	<b>(80)</b>	<b>(139)</b>	<b>(405)</b>	<b>(54)</b>	<b>(80)</b>
<b>Free cash flow (a+capex)</b>	<b>76</b>	<b>37</b>	<b>360</b>	<b>46</b>	<b>(38)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	23	29	29	29	29
Others	(53)	(74)	(67)	(61)	(62)
<b>Cash flow from financing (c)</b>	<b>(30)</b>	<b>(45)</b>	<b>(38)</b>	<b>(33)</b>	<b>(32)</b>
<b>Net change in cash (a+b+c)</b>	<b>3</b>	<b>3</b>	<b>(27)</b>	<b>60</b>	<b>(13)</b>
Reconciliation of Other balances	0	0	0	0	0
Cash as per Balance Sheet	40	43	15	75	62

Source: Company, IndiaNivesh Research

**Key Ratios (Consolidated)**

Y E March	FY14	FY15	FY16	FY17E	FY18E
Adjusted EPS (Rs)	34.9	37.3	28.8	33.8	41.8
<i>Growth</i>	<i>33.4</i>	<i>6.8</i>	<i>(22.7)</i>	<i>17.1</i>	<i>23.7</i>
Dividend/share (Rs)	4.0	5.0	5.0	5.0	5.0
Dividend payout ratio	11.4	13.4	17.3	14.8	12.0
EBITDA margin	15.0	15.0	16.2	15.6	15.7
EBIT margin	14.6	15.5	16.3	15.8	16.0
Net Margin	10.4	11.0	11.9	11.6	11.7
Tax rate (%)	28.1	28.4	25.9	26.0	26.0
Debt/Equity(x)	0.0	0.0	0.0	0.0	0.0
Inventory Days	48	57	99	68	68
Sundry Debtor Days	181	164	135	142	142
Trade Payable Days	46	51	53	53	53
<b>Du Pont Analysis - ROE</b>					
Net margin	10.4	11.0	11.9	11.6	11.7
Asset turnover (x)	0.9	0.8	0.6	0.6	0.7
Leverage factor (x)	1.2	1.2	1.2	1.2	1.2
ROE(%)	11.3	11.0	7.9	8.6	9.8
RoCE (%)	15.8	15.5	10.7	11.8	13.4
<b>Valuation (x)</b>					
PER	11.3	10.6	13.7	11.7	9.5
PCE	9.0	8.8	11.2	9.6	7.8
Price/Book	1.2	1.1	1.0	1.0	0.9
EV/EBITDA	6.0	5.7	5.9	4.8	3.9

Source: Company, IndiaNivesh Research

## Initiating Coverage

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