

Growth Visible Beyond Short-Term Hiccups; Maintain BUY

Est. Vs. Actual for Q3FY26: Revenue: **MISS**; EBITDA: **MISS**; PAT: **MISS**

Changes in Estimates post Q3FY26

FY26E/FY27E/FY28E: Revenue: -5%/0%/0%; EBITDA: -13%/0%/0%; PAT: -11%/0%/0%

Recommendation Rationale

- **Short-Term Issues Impacting Revenue Recognition:** Despite a robust order book, the company reported revenues of Rs 522 Cr during the quarter, reflecting a modest YoY growth of 4%. The subdued performance was largely attributable to order delays and execution deferrals arising from customer-driven factors. Flattish revenue growth, higher employee costs, and an unfavourable product mix also weighed on margins during the quarter.
- **Continued Momentum in the MHE Division:** The MHE segment delivered healthy growth, with revenues rising 13% YoY to Rs 123 Cr. As per the management, the division continues to secure steady order inflows from the domestic market and expects incremental contributions from international markets going forward. A strong open order book and a robust enquiry pipeline provide confidence in improved performance ahead.
- **Growth Expected to Pick Up:** The management indicated that execution is picking up pace, and the company is likely to recoup growth from Q4FY26. While some orders from earlier quarters will contribute to growth in Q4, a large portion of orders received earlier in the year is expected to be executed over the next two quarters. Margins are also expected to recover as revenue recognition improves and the product mix normalises.

Sector Outlook: Optimistic

Company Outlook & Guidance: Management has revised its FY26 revenue guidance downward by up to ~5% from the earlier guidance of Rs 2,650 Cr. Adjusted EBITDA margins are expected to be lower by up to ~2% compared to the earlier guidance of 24%. Despite the near-term moderation, improvement is anticipated, supported by a strong order book and a robust enquiry pipeline. Growth is expected to be driven by seasonal demand and sustained traction in key end-user industries, particularly cement, steel, sugar, and power. Over the medium term, the company expects to maintain this growth momentum and continues to progress toward its strategic objective of generating 50% of consolidated revenues from international markets by FY30.

Current Valuation: 24x Sept'27E (Unchanged)

Current TP: Rs 635/share (Unchanged).

Recommendation: We maintain our BUY rating on the stock.

Financial Performance: Elecon's quarterly performance fell short of expectations. Revenues stood at Rs 552 Cr, up 4% YoY but down 5% QoQ, missing estimates by 11%. EBITDA was reported at Rs 109 Cr, declining 23% YoY and 13% QoQ, and falling short of estimates by 28%. EBITDA margins contracted to 19.8% compared to 27.0% in Q3FY25 and 21.7% in Q2FY26. PAT came in at Rs 72 Cr, registering a decline of 33% YoY and 18% QoQ.

Key Financials (Consolidated)

(Rs Cr)	Q3FY26	YoY (%)	QoQ (%)	Axis Est.	Var (%)
Net Sales	552	4%	-5%	480	-11%
EBITDA	109	-23%	-13%	75	-28%
EBITDA Margin	19.8%	-717bps	-194bps	15.63%	-465bps
Net Profit	72	-33%	-18%	43	-30%
EPS (Rs)	3.2	-33%	-18%	12.1	-30%

Source: Company, Axis Securities Research

(CMP as of 9th January, 2026)

CMP (Rs)	424
Upside /Downside (%)	50%
High/Low (Rs)	717/348
Market cap (Cr)	11,424
Avg. daily vol. (1m) Shrs.	17,42,698
No. of shares (Cr)	22.4

Shareholding (%)

	Jun-25	Sep-25	Dec-25
Promoter	59.28	59.28	59.28
FII's	9.61	8.31	8.09
DII's	3.80	4.13	4.48
Government	0.04	0.04	0.04
Other	27.28	28.25	28.11

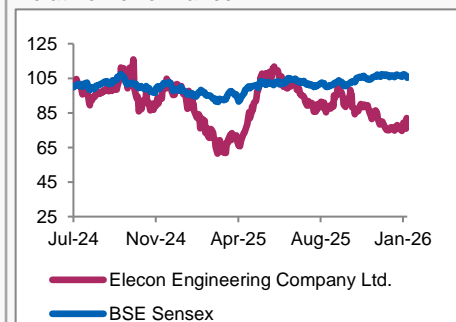
Financial & Valuations

Y/E Mar	FY25	FY26E	FY27E
Net Sales	2,227	2,471	3,137
EBITDA	543	554	769
Net Profit	415	462	530
EPS (Rs)	18.5	20.6	23.6
PER (x)	22.9	20.6	18.0
EV/EBITDA (x)	17.9	17.6	12.7
ROE (%)	23%	21%	20%
ROCE (%)	28%	22%	26%

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
Sales	-5%	0%	0%
EBITDA	-13%	0%	0%
PAT	-11%	0%	0%

Relative Performance



Source: Ace Equity, Axis Securities Research

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Outlook

Elecon continues to hold a leadership position in India across both the Industrial Gear Solutions and Material Handling Equipment segments, effectively leveraging growth opportunities in the domestic market. Simultaneously, the company remains focused on expanding its international footprint across multiple geographies. Its competitive strengths include advanced manufacturing capabilities supported by recently upgraded state-of-the-art machinery, a diversified portfolio of high-quality products, and the ability to deliver customised, engineered solutions with optimised lead times. Domestically, sustained investment activity in sectors such as steel, power, and cement is expected to drive demand, while overseas operations are showing signs of recovery, with consistent traction and improving enquiry levels across regions.

Valuation & Recommendation

We have revised our FY26E forecasts downward to factor in delays in order execution, while retaining our FY27E and FY28E estimates. This reflects our view that the company's strong order book, along with healthy order inflow prospects from both domestic and international markets, offers solid earnings visibility over the medium term. In line with this, we see the current price correction owing to short-term factors provides a good buying opportunity and **reiterate our BUY recommendation on Elecon Engineering Company Ltd. We continue to value the stock at 24x Sep'27E EPS, maintaining an unchanged target price of Rs 635/share, implying an upside of 50% from the current levels.**

Key Concall Highlights

- **Q3 Financial Performance:** YoY revenue growth of 4.3% amid short-term challenges. The gear business was impacted by timing-related delays. The domestic market contributed 76% of revenue. EBITDA declined YoY, with margins contracting to 19.8%. Margins were impacted by flattish revenue performance, higher employee costs, and an adverse change in product mix.
- **Gear Division:** The Gear segment reported revenues of Rs 429 Cr, up 1.3% YoY, with EBIT margins at 18.2%. It contributed approximately 78% of revenue in Q3. Growth remained muted due to delays in order inflows, execution, and dispatch deferrals arising from customer-driven schedules. Underlying demand remains healthy, supported by strong enquiry levels and order inflows. Demand from the power, steel, and cement sectors remains strong, while the sugar sector is showing signs of recovery. Management expects the gear division to return to stronger growth, supported by robust demand from key sectors and improved execution.
- **MHE Division:** During Q3FY26, the Material Handling Equipment segment continued to deliver strong growth, reporting revenues of Rs 123 Cr, reflecting a 16.3% YoY increase, with EBIT margins at 20.2%. Management indicated that the segment's focus on product offerings and expansion of aftermarket services should help sustain momentum going forward.
- **Order Book:** Consolidated order inflow stood at Rs 701 Cr during the quarter, up 7% YoY. The consolidated order book increased to Rs 1,372 Cr as of 31 December 2025, compared with Rs 1,105 Cr as of 31 December 2024. Order intake for the Gear business was Rs 464 Cr in Q3FY26, broadly in line with Rs 469 Cr in Q3FY25, with the order book at Rs 811 Cr as of 31 December 2025. The MHE segment recorded order inflows of Rs 237 Cr in Q3FY26 versus Rs 185 Cr in Q3FY25, translating into a YoY growth of 28%. The outstanding order book for MHE stood at Rs 561 Cr as of 31 December 2025.
- **Balance Sheet/Capex:** The company maintained a net cash balance of ~Rs 600 Cr as of quarter end, providing financial flexibility for growth initiatives. Planned capex for the FY26–28 period stands at Rs 400 Cr.
- **Demand Outlook:** Management highlighted that demand conditions remain favourable across both domestic and international markets. In India, continued investments in sectors such as steel, power, and cement are expected to support growth. Demand is expected to be particularly stronger in the power and sugar sectors over the coming quarters. Overseas operations are also witnessing a gradual recovery, with steady traction and improving enquiry levels across regions. Overall demand indicators remain positive, supporting improved business momentum ahead.
- **Guidance:** Owing to near-term challenges, revenue guidance has been revised downward by up to 5% (earlier Rs 2,650 Cr), and EBITDA margins are expected to be lower by up to 2% below the earlier guidance of 24%. Some orders received earlier are expected to be delivered in Q4FY26 and Q1FY27. Management expects faster execution of orders starting Q4 and indicated that the EBITDA margin decline is temporary in nature, with margins expected to improve as execution accelerates in the coming quarters.

Key Risks to Our Estimates and TP

- Any delays, moderation, or slowdown in industrial capex could adversely impact Elecon's business prospects.
- Weakness in export markets or supply-chain disruptions may constrain the company's growth momentum.
- Any changes in demand patterns or buying preferences of existing and potential customers could negatively affect business performance.

Change in Estimates

	New			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY8E	FY26E	FY27E	FY8E
Sales	2,471	3,137	3,799	2,600	3,137	3,799	-5.0%	0.0%	0.0%
EBITDA	554	769	954	635	769	954	-12.8%	0.0%	0.0%
PAT	462	530	660	521	530	660	-11.3%	-0.1%	0.1%

Source: Company, Axis Securities Research

Q3FY26 Results Review

Particulars	Q3FY25	Q2FY26	Axis Sec Estimate (Rs Cr)	Q3FY26	% Change (YoY)	% Change (QoQ)	Variance (%)
Revenue	529	578	619	552	4%	-5%	-11%
Gross Profit	303	292	316	285	-6%	-2%	
Gross Margin %	57.3%	50.5%	51.0%	51.6%	-563bps	116bps	65bps
Employee Cost	48	58	62	59	23%	2%	
Manufacturing Expenses & Erection charges	42	42	43	46	10%	9%	
Other Expenses	70	66	59	71	1%	7%	
EBIDTA (Excl. Other Income)	143	126	151	109	-23%	-13%	-28%
EBIDTA Margin (Excl. Other Income)	27.0%	21.7%	24.4%	19.8%	-717bps	-194bps	-465bps
Add: Other income	158.2	144.0	169.7	128.0	-19%	-11%	
EBIDTA (Incl. Other Income)	300.8	269.6	321.0	237.2	-21%	-12%	-26%
EBIDTA Margin (Incl. Other Income)	56.9%	46.6%	51.8%	43.0%	-1388bps	-364bps	-884bps
Less: Depreciation	16	25	25	27	75%	8%	
EBIT	127	100	126	82	-36%	-18%	
Less: Net Interest	3	6	6	7	97%	20%	
Profit Before Tax	140	113	138	94	-33%	-17%	
Less: Total Tax	33	25	35	22	-33%	-13%	
Adj. PAT	108	88	103	72	-33%	-18%	-30%
Adj. EPS	5	4	4.60	3	-33%	-18%	-30%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Net Revenue	1,937	2,227	2,471	3,137	3,799
COGS	862	1,029	1,159	1,412	1,691
Employee costs	188	209	267	303	361
Operating Exp.	412	447	490	653	794
Total Expenditure	1,463	1,684	1,917	2,368	2,846
EBITDA (Excluding Other Income)	474	543	554	769	954
EBITDA Margin %	24.5%	24.4%	22.4%	24.5%	25.1%
Other Income	44	60	75	95	115
EBITDA (Including Other Income)	519	603	629	865	1,069
EBITDA Margin %	26.8%	27.1%	25.4%	27.6%	28.1%
Depreciation	51	61	102	121	145
EBIT	468	542	527	743	924
Interest	9	13	24	28	33
PBT	465	537	584	716	891
Tax	110	122	122	186	231
<i>Tax Rate %</i>	<i>23.6%</i>	<i>22.7%</i>	<i>20.9%</i>	<i>26.0%</i>	<i>25.9%</i>
PAT	356	415	462	530	660
EPS	15.8	18.5	20.6	23.6	29.4

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Share Capital	22	22	22	22	22
Reserves & Surplus	1,582	1,976	2,382	2,844	3,426
Net Worth	1,604	1,999	2,404	2,866	3,448
Financial Non-Current Liability	-	-	-	-	-
Other Non-current Liability	18	21	21	21	21
Deferred Tax Liability	26	23	23	23	23
Total Non-Current Liability	121	194	214	234	213
Current Financial Liability	-	3	3	3	3
Trade Payables	188	280	270	336	417
Other Current Liabilities	183	199	199	199	199
Provisions	17	23	23	23	23
Total Current Liability	399	537	557	653	764
Total Equity & Liability	2,124	2,729	3,175	3,754	4,425
PPE	516	555	545	506	470
Capital Work in Progress	1	7	7	7	7
Investment Property	25	25	25	25	25
Right Use Of Assets	106	209	267	359	426
Intangible Assets	20	24	24	24	24
Total Non-Current Assets	832	844	905	1,033	1,082
Inventories	230	243	254	290	347
Trade Recievables	445	614	589	731	833
Cash & Other Bank Balances	263	358	569	717	999
Loans & Investments	259	429	629	829	1,029
Other Current Assets	21	52	52	52	52
Total Current Assets	1,219	1,696	2,093	2,619	3,260
Total Assets	2,124	2,729	3,175	3,754	4,425

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
PBT	465	537	584	716	891
Share of associates	-6	-8	-1	-	-
Depreciation & Amortization	51	61	102	121	145
Finance Cost	9	13	24	28	33
Other Adjustments	-3	-22	-	-	-
Chg in Working cap	-43	-22	4	-111	-79
Direct tax paid	-108	-127	-122	-186	-231
Cash flow from operations	365	432	591	567	759
Chg in Gross Block	-26	-64	-50	-25	-25
Chg in Investments	-202	-191	-200	-200	-200
Others	-51	-61	-100	-150	-150
Cash flow from investing	-279	-316	-350	-375	-375
Fresh Issue Proceeds	-	-	-	-	-
Proceeds / (Repayment) of Borrowings (Net)	-16	-21	50	51	9
Finance Cost paid	-9	-13	-24	-28	-33
Dividends paid	-34	-34	-56	-67	-79
Cash flow from financing	-59	-67	-30	-44	-103
Chg in cash	27	49	211	148	281
Cash and cash equivalents at the beginning of the year	82	110	159	370	518
Cash and Cash equivalents at the end of the year	110	159	370	518	799

Source: Company, Axis Securities Research

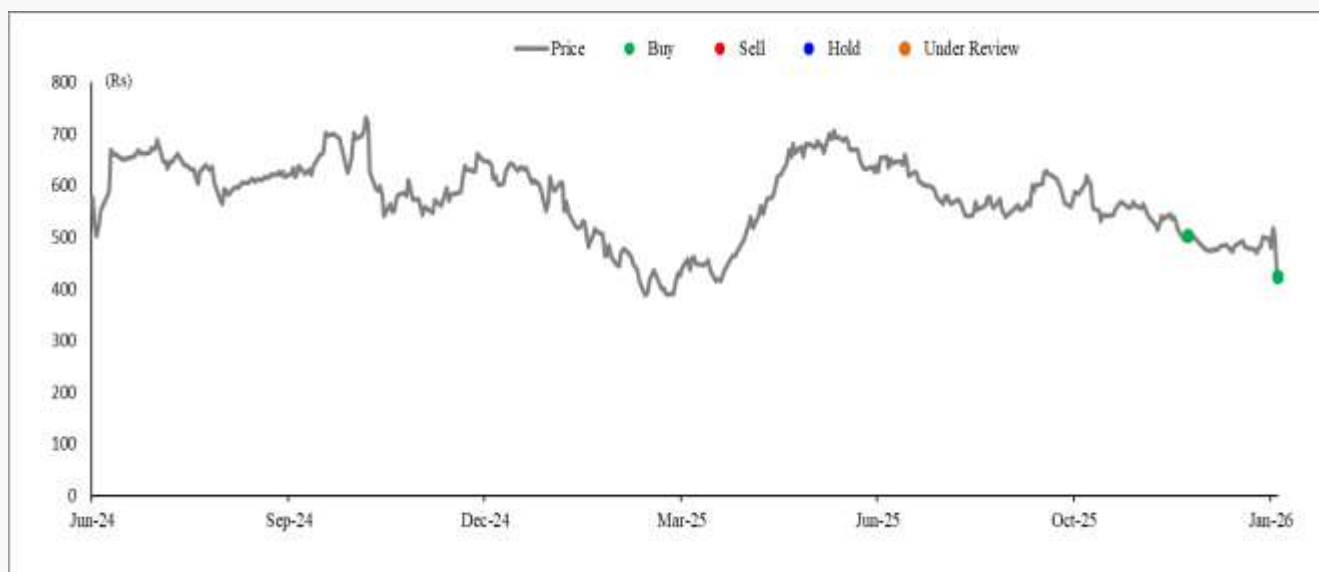
Ratio Analysis

(%)

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
Efficiency Ratios					
Asset Turnover (x)	1.0	0.9	0.8	0.9	0.9
Inventory Turnover(x)	3	4	5	5	5
Sales/Total Assets	1	1	1	1	1
Receivable days	74	87	89	77	75
Inventory Days	108	84	78	70	69
Payable days	81	83	87	78	81
Financial Stability Ratios					
Total Debt/Equity(x)	0.0	0.1	0.1	0.1	0.1
Total Asset/Equity(x)	1.3	1.3	1.3	1.3	1.3
Current Ratio(x)	3.1	3.2	3.8	4.0	4.3
Quick Ratio(x)	2.5	2.7	3.3	3.6	3.8
Interest Coverage Ratio (x)	54.9	41.6	23.2	27.8	28.7
Operational & Financial Ratios					
Earnings Per Share (Rs)	15.8	18.5	20.6	23.6	29.4
Book Value (Rs)	71	89	107	128	154
Tax Rate(%)	24%	23%	21%	26%	26%
Performance Ratios					
ROA (%)	18%	17%	16%	15%	16%
ROCE (%)	30%	28%	22%	26%	27%
ROE (%)	25%	23%	21%	20%	21%

Source: Company, Axis Securities Research

Elecon Engineering Company Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
28-Nov-25	BUY	635	Initiating Coverage
12-Jan-26	BUY	635	Result Update

Source: Axis Securities Research

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