

Elecon Engineering Company Ltd.

Deceleration in order inflows impacts growth outlook

Elecon Engineering Company Ltd. (EECL) reported a revenue growth of ~4% on a YoY basis in Q3FY26. The gear division, which accounted for ~78% of total revenue, grew by ~1% on a YoY basis. The growth was on the softer side due to timing-related delays in order receipt and execution, as well as customer-driven dispatch deferrals. However, during the quarter the MHE business, which accounts for ~22% of total revenue, grew by 16% on a YoY basis. The growth was driven by power, cement, mining and quartz sectors. The EBITDA margin was 20% in Q3FY26 compared to 27% in Q3FY25. Margins were impacted due to flat revenue performance, higher employee costs and a change in product mix. This led to degrowth of PAT by ~33% on a YoY basis. During the quarter, the order book and order intake grew by ~24% and ~7% on a YoY basis. The growth in the domestic business was impacted by delayed execution and the postponement of certain power sector orders to the next financial year by customers. Additionally, the international business faced headwinds due to the ongoing geopolitical situation.

Downward revision in FY26 guidance

The management has revised its FY26 guidance downwards due to weaker performance in 9MFY26. The revenue guidance has been revised to Rs. 25,000 Mn, down from Rs. 26,500 Mn, with adjusted EBITDA margins now expected to be ~22%, instead of the previously projected ~24%. To meet the revised targets, the Company would require a strong execution in Q4, with recovery driven by engineered product orders from Q2 and some from Q3, which should boost margins. Additionally, orders from catalogued products that were deferred in the second half of Q3, along with the intake from the first two months of Q4, will be executed within Q4.

Order book expansion continues

EECL reported strong order book growth to Rs. 13,720 Mn, up ~24% on a YoY basis, driven mainly by domestic orders from the power, cement, and port sectors. The gears segment order book grew ~19% on a YoY basis, supported by capex in power, cement, steel, and sugar. The MHE segment order book rose ~33% on a YoY basis, led by demand from power, steel, and ports. With healthy enquiry levels and a strong order pipeline, management remains confident on demand.

Export growth with cautious domestic approach

Despite weaker performance in recent quarters, EECL remains focused on growing exports mix to ~50% by FY30. This is supported by efforts to strengthen its OEM relationships and to expand in regions like the Middle East and Europe, despite geopolitical challenges. Domestically, the management takes a conservative approach, aiming to maintain its 40% market share without aggressively expanding, to avoid margin compression from increased competition. The focus is on retaining leadership through product quality, innovation, and after-sales service.

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 have revised our estimates and maintain a BUY rating on EECL with a target price of Rs. 576 (30x FY27E EPS).

12th January 2026

BUY

CMP Rs. 411

TARGET Rs. 576 (+40%)

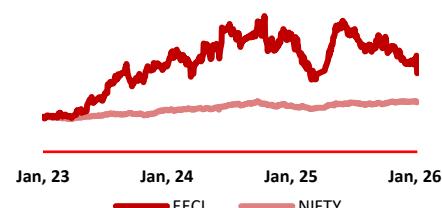
Company Data

Bloomberg Code	ELCN IN
MCAP (Rs. Mn)	92,228
O/S Shares (Mn)	224
52w High/Low	717 / 348
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	367

Shareholding Pattern %

	Dec 25	Sept 25	Jun 25
Promoters	59.3	59.3	59.3
FII's	8.1	9.6	8.7
DIIs	4.5	3.8	4.4
Non-Institutional	28.1	27.3	27.7

EECL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY25	FY26E	FY27E
Revenue	22,270	25,008	29,918
EBITDA	5,426	5,502	6,971
Net Profit	4,134	4,074	4,310
Total Assets	27,295	31,077	35,490
ROCE (%)	23%	16%	18%
ROE (%)	23%	19%	17%

Source: Company, Keynote Capitals Ltd.

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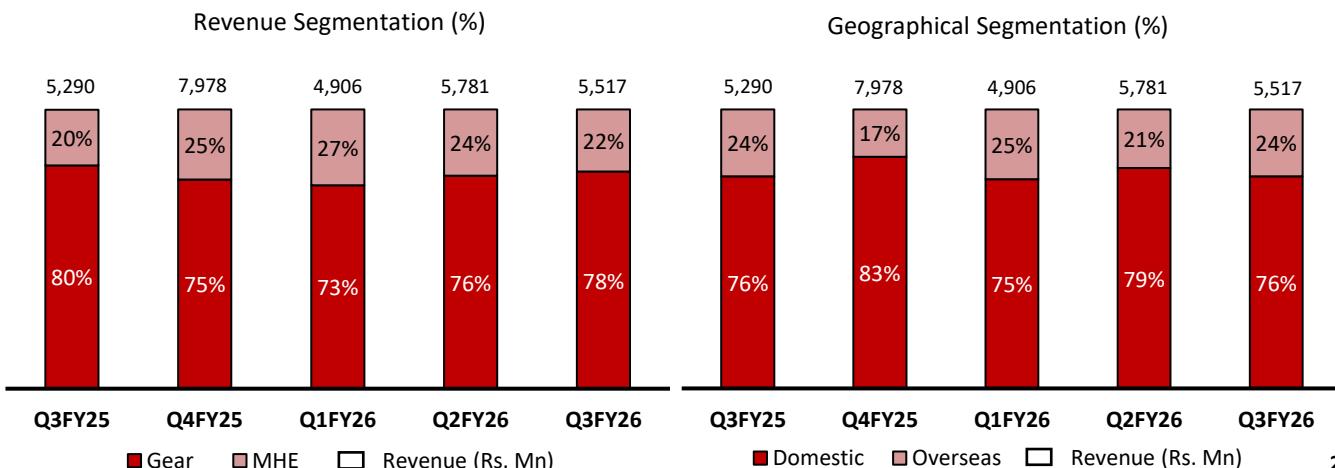
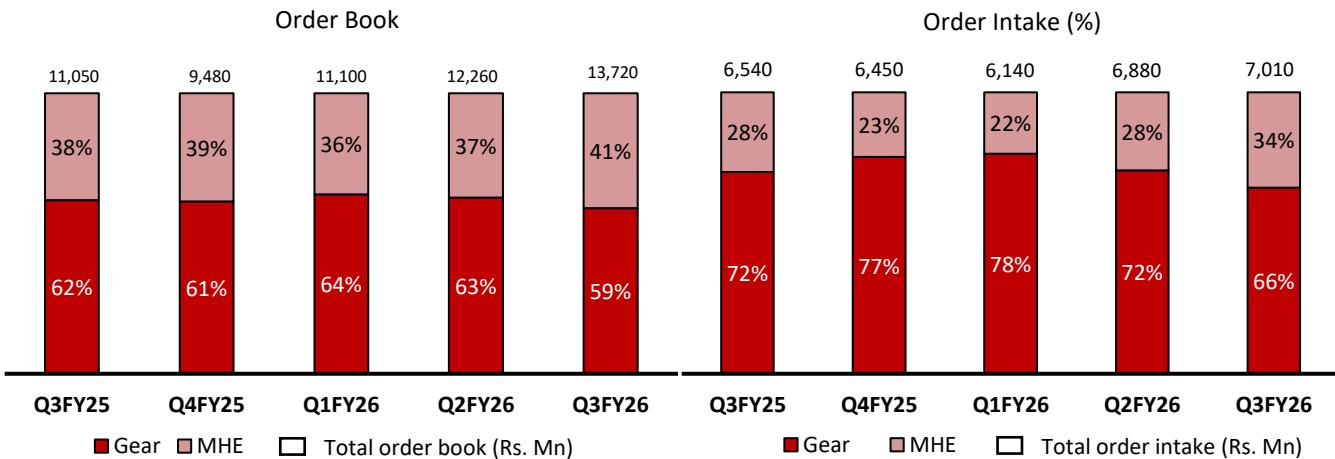
Q3 FY26 Result Update

Result Highlights (Rs. Mn)

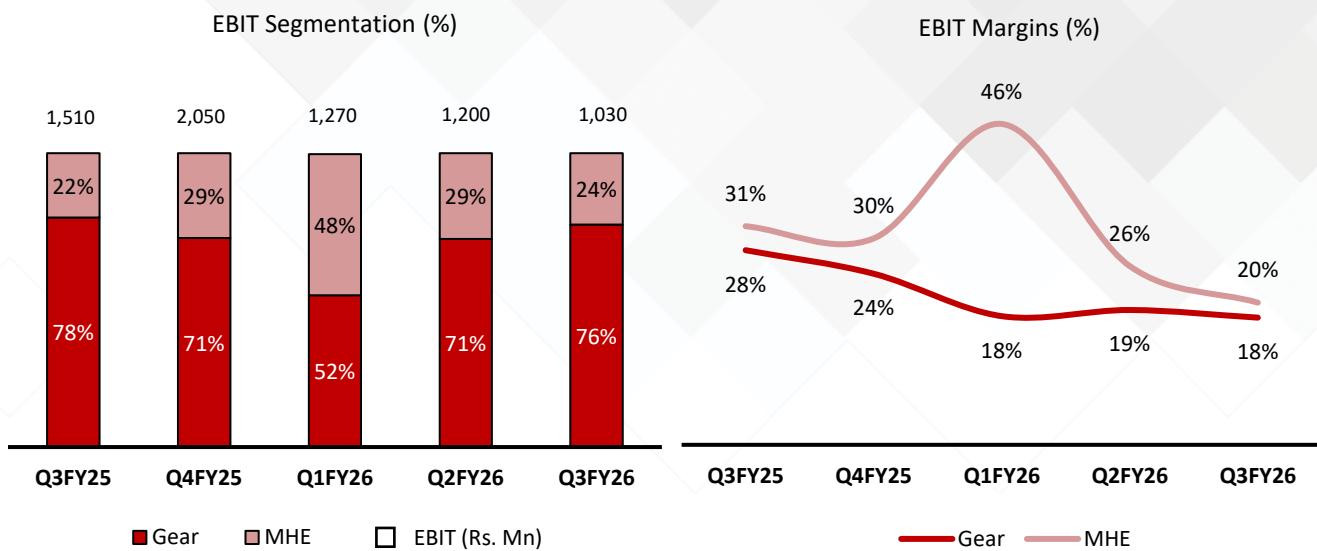
Particulars	Q3FY26	Q3FY25	Change % (Y-o-Y)	Q2FY26	Change % (Q-o-Q)	9MFY26	9MFY25	Change % (Y-o-Y)	FY25
Revenue	5,517	5,289	4%	5,781	-5%	16,204	14,294	13%	22,270
Raw Material Cost	3,130	2,680	17%	3,287	-5%	8,746	7,434	18%	11,874
Gross Profit	2,387	2,609	-8%	2,495	-4%	7,459	6,860	9%	10,396
Gross Profit %	43%	49%	(606) Bps	43%	12 Bps	46%	48%	(196) Bps	47%
Employee Cost	587	479	23%	577	2%	1,757	1,412	24%	2,086
Other Operating Expense	709	705	1%	661	7%	2,051	1,975	4%	2,885
EBITDA	1,092	1,426	-23%	1,256	-13%	3,651	3,473	5%	5,426
EBITDA %	20%	27%	(717) Bps	22%	(194) Bps	23%	24%	(176) Bps	24%
Depreciation	272	155	75%	253	8%	771	415	86%	608
EBIT	819	1,270	-36%	1,004	-18%	2,881	3,058	-6%	4,818
EBIT %	15%	24%	(917) Bps	17%	(251) Bps	18%	21%	(361) Bps	22%
Finance Cost	68	35	97%	57	20%	187	79	135%	130
Other Income	189	156	21%	183	3%	636	415	53%	601
Exceptional Items	-	-	-	-	-	805	-	-	-
PBT	940	1,392	-33%	1,130	-17%	4,135	3,393	22%	5,288
Tax	220	327	-33%	253	-13%	789	763	3%	1,219
Share in profit of associate	10	10	-100%	0	-	6	57	-89%	81
Profit after tax	720	1,075	-33%	877	-18%	3,352	2,686	25%	4,151
EPS	3	5		4		15	12		19

Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression



Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

Q3FY26 Conference Call Takeaways

Gear segment

- The gear segment experienced softness in Q3FY26, with revenue remaining flat on a YoY basis. It was primarily due to delayed execution, deferral in deliveries from the customers in the domestic market. The geopolitical volatility in select international markets impacted the international business. With enquiry levels continuing to be strong across geographies, the management is positive about the business outlook going forward.
- The deferral in orders was primarily observed in the power sector, with these orders expected to start realizing in Q1FY27.
- The gear division reported a decline in EBIT margin from ~28% in Q3FY25 to ~18% in Q3FY26, driven by higher employee costs and change in product mix between engineered and catalogued products. As capacity utilization improves and revenues scale up, the long-term margins are expected to normalize at ~24%.
- The order book for the gears segment grew by 19% on a YoY basis to reach Rs. 8,110 Mn in Q3FY26 whereas the order intake for Q3FY26 stood at Rs. 4,640 Mn, showing a degrowth of ~1% on a YoY basis.
- Management expects to secure a Rs. 2,000 Mn naval gear box order for INS Vikrant, by Q1FY27, with execution spread over the next two years.
- 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 management is expecting to receive this order by Q3FY27.
- The management highlighted that as the defense sector is a new area for the Company, they are facing higher manufacturing costs while learning the production processes, which has impacted margins. However, this is seen as a temporary effect, with the EBIT margin impact estimated at ~2-3%. Given the strategic importance of the defense segment, the Company expects this pressure to ease over 1 year.

MHE segment

- The MHE segment reported a growth of 16% on a YoY basis. This is supported by increased execution and demand from Power, Cement, Mining and Ports sectors.
- The MHE segment reported an EBIT margin of ~20%, down from ~31% on a YoY basis. This decline was driven by higher employee costs and a shift in the product mix, which carry lower margins.
- The order book for the MHE segment grew by ~33% on a YoY basis to reach Rs. 5,610 Mn in Q3FY26 whereas the order intake in Q3FY26 stood at Rs. 2,370 Mn, showing a strong growth of ~28% on a YoY basis.

Capex

- The Company has planned a Capex of Rs. 4,000 Mn for FY26 to FY28, aligned with its long-term strategic priorities.
- The Company is focusing on machinery upgrades and expanding its capacity, particularly for the power sector. It mentioned an ongoing capex of Rs. 350-400 Mn, with machinery expected to be received by Q1FY27.

General highlights

- EECL's OEM export business continues to gain strong traction. EECL currently serves 18 OEMs, most of whom have completed successful product trials and indicated promising order volumes. The Company has recognized Rs. 310 Mn of revenues from these OEM's in 9MFY26.
- 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 has stated that the current revenue base remains largely unaffected by the US tariff implications, and they are focused on growth in various other markets.
- 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 22% in Q3FY26.
- Mr. Narasimhan Raghunathan has stepped down as the Chief Financial Officer of the Company, citing personal and family obligations.

Guidance

- Management revised its FY26 revenue guidance of ~Rs. 26,500 Mn to Rs. 25,000 Mn, supported by a strong order book of Rs. 13,720 Mn and healthy enquiry momentum across both division.
- The management has revised its guidance on margins from 24% to 22% for the full year FY26.
- The management has provided guidance for a 20-25% compounded growth over a 3-year period.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	19,374	22,270	25,008	29,918	35,458
Growth %	27%	15%	12%	20%	19%
Raw Material Expenses	10,183	11,874	13,504	16,006	18,970
Employee Expenses	1,885	2,086	2,751	3,141	3,546
Other Expenses	2,560	2,882	3,251	3,800	4,432
EBITDA	4,747	5,429	5,502	6,971	8,510
Growth %	42%	14%	1%	27%	22%
Margin%	25%	24%	22%	23%	24%
Depreciation	509	608	1,398	1,675	1,845
EBIT	4,238	4,821	4,104	5,296	6,665
Growth %	49%	14%	-15%	29%	26%
Margin%	22%	22%	16%	18%	19%
Interest Paid	89	133	245	270	294
Other Income & exceptional	441	601	1,565	720	800
PBT	4,590	5,288	5,423	5,746	7,171
Tax	1,098	1,219	1,356	1,437	1,793
PAT	3,492	4,070	4,068	4,310	5,378
Profit from associates	64	64	6	0	0
Net Profit	3,556	4,134	4,074	4,310	5,378
Growth %	50%	16%	-1%	6%	25%
Shares (Mn)	112.2	224.4	224.4	224.4	224.4
EPS	15.85	18.50	18.15	19.21	23.97

Balance Sheet

Y/E Mar, Rs. Mn	FY24	FY25	FY26E	FY27E	FY28E
Cash, Cash equivalents & Bank	2,633	3,584	7,971	11,415	15,493
Current Investments	2,033	4,146	4,146	4,146	4,146
Debtors	4,451	6,139	5,252	5,984	7,092
Inventory	2,297	2,430	3,106	3,521	4,173
Short Term Loans & Advances	550	378	378	378	378
Other Current Assets	225	286	286	286	286
Total Current Assets	12,189	16,963	21,138	25,730	31,568
Net Block & CWIP	7,695	9,206	8,809	8,630	8,380
Long Term Investments	831	813	817	817	817
Other Non-current Assets	516	313	313	313	313
Total Assets	21,231	27,295	31,077	35,490	41,078
Creditors	1,879	2,801	2,836	3,284	3,924
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	5,406	5,854	6,494
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	23,510	27,475	32,423
Shareholders' Equity	16,040	19,987	23,735	27,700	32,647
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	21,231	27,295	31,077	35,490	41,078

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
2 nd May 2025	BUY	545	+50.9%
15 th July 2025	BUY	624	+20.4%
15 th October 2025	BUY	542	+38.6%
12 th January 2026	BUY	411	+40.1%

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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