



INDEPENDENT **EQUITY** **RESEARCH**

Eimco Elecon (India) Ltd

Q4FY11 Result Update

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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Eimco Elecon (India) Ltd

Margins impacted

Fundamental Grade 4/5 (Superior fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Machinery

Eimco Elecon (India) Ltd's (Eimco Elecon's) FY11 revenues were marginally below CRISIL Equities' estimates. FY11 sales grew 14% y-o-y. However, higher-than-expected margin contraction in Q4FY11 has resulted in full-year profits being 20% below our estimates. FY11 EBITDA margins were 280 bps lower than our estimate primarily on account of lower-than-expected contribution from the high-margin spares business. Also, the low-margin equipment business (side dump loaders) dominated the revenue mix. However, we expect the demand for underground mining equipments and launch of new products will continue to drive revenue growth. Consequently, we maintain our fundamental grade of 4/5.

Q4FY11 result analysis

- Eimco Elecon's Q4FY11 revenues declined by 5.4% y-o-y, in line with our expectations.
- EBITDA margin contracted by 900 bps y-o-y. Lower revenue contribution from the high-margin spares business and higher sale of low-margin equipments vis-à-vis Q3FY11 resulted in q-o-q margin decline. While we had expected the decline due to higher base in Q4FY10, the magnitude of decline was greater.
- Q4 PAT declined by 43%. FY11 EPS was Rs 23.2 compared to our estimate of Rs 29.1.
- The company has declared a dividend of Rs 4 per share.

Earnings estimates – revised downwards

We lower our FY12 and FY13 revenue estimates by 5.5% and 5.7% respectively. The company's current order book consists of low-margin products (side dump loaders). We revise our EBITDA margins for FY12 and FY13 downwards by 116 bps and 95 bps, respectively, on account of low order visibility on high-value products. Consequently, our EPS estimates are lowered by 8.8% for FY12 and 7.8% for FY13.

Valuations: Current market price has strong upside

We continue to use the discounted cash flow method to value Eimco Elecon. Following the revision in earnings estimates, the fair value is revised to Rs 304 per share. At the current market price, the stock merits a valuation grade of 5/5.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	1,476	1,638	1,874	2,122	2,455
EBITDA	321	266	261	347	431
Adj PAT	152	127	134	194	248
Adj EPS-Rs	26.4	22.0	23.2	33.6	43.0
EPS growth (%)	20.3	(16.8)	5.8	44.4	28.3
Dividend yield	3.6	2.0	1.7	2.2	2.6
RoCE (%)	19.5	14.0	14.1	19.1	21.8
RoE (%)	13.5	10.2	10.0	13.1	14.9
PE (x)	5.0	10.6	9.9	6.9	5.3
P/BV (x)	0.6	1.0	0.9	0.9	0.8
EV/EBITDA (x)	2.9	5.4	5.0	3.4	2.6

NM: Not meaningful; CMP: Current Market Price

#- Based on abridged financials

Source: Company, CRISIL Equities estimate

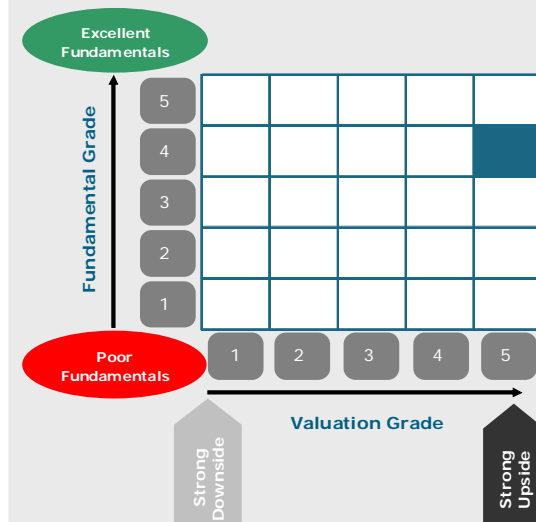


May 12, 2011

Fair Value Rs 304

CMP Rs 230

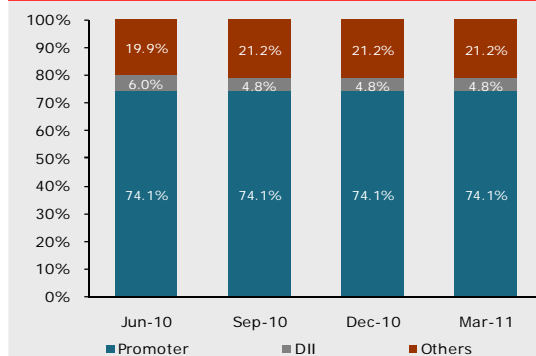
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5565
NSE ticker	EIMCOELECO
Face value (Rs per share)	10
Shares outstanding (mn)	5.8
Market cap (Rs mn)/(US\$ mn)	1,327/30
Enterprise value (Rs mn)/(US\$ mn)	1,407/31
52-week range (Rs) (H/L)	399/208
Beta	0.75
Free float (%)	26.0%
Avg daily volumes (30-days)	1,514
Avg daily value (30-days) (Rs mn)	0.4

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
EIMCO ELECON	-5%	1%	-39%	-9%
NIFTY	-4%	6%	-12%	7%

ANALYTICAL CONTACT

Chetan Majithia (Head) chetanmajithia@crisil.com
Onkar Kulkarni okulkarni@crisil.com
Vishal Rampuria vrampuria@crisil.com

Client servicing desk

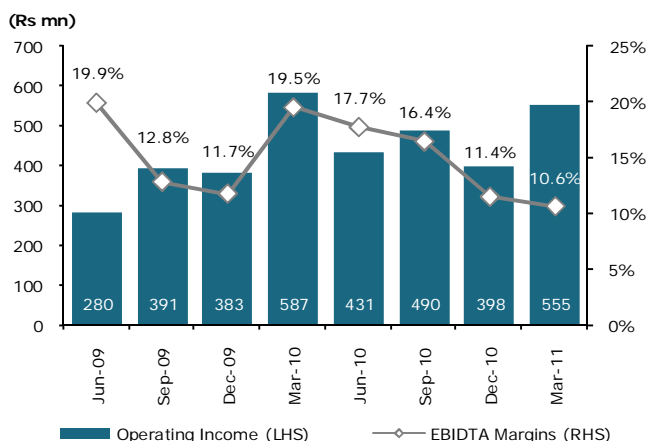
+91 22 3342 3561 clientservicing@crisil.com

Q4FY11 Result Summary

(Rs mn)	Q4FY11	Q3FY11	Q4FY10	q-o-q (%)	y-o-y (%)	FY11	FY10	y-o-y (%)
Net sales	555	398	587	39.4	(5.4)	1,874	1,641	14.2
Consumption of Raw Materials	279	271	343	3.2	(18.5)	1,051	1,015	3.6
Raw material as a % of sales	50%	68%	58%	(1,765) bps	(809) bps	56%	62%	(575) bps
(Increase) / Decrease in Stock in Trade	70	(42)	(9)	264.0	852.0	46	(79)	(158.0)
Other expenses	66	58	54	14.9	21.9	224	168	32.9
Employees Cost	19	22	16	(12.6)	23.9	80	73	9.6
Compensation to the distributor	62	45	69	37.8	(10.5)	212	199	6.7
EBITDA	59	45	114	29.0	(48.8)	261	265	(1.4)
EBITDA margin	10.6%	11.4%	19.5%	(85) bps	(893) bps	13.9%	16.1%	(221) bps
Depreciation	15	16	17	(7.9)	(15.9)	64	69	(8.4)
EBIT	44	30	97	48.8	(54.6)	197	195	1.1
Interest and finance charges	0	0	4	(17.8)	(94.6)	2	11	(81.7)
Operating PBT	44	29	93	49.3	(53.1)	195	184	5.9
Other Income	1	0	2	749.5	(68.2)	1	5	(70.8)
Extraordinary Income/(expense)	0.0	-	-	NM	NM	0.0	1.2	(97.8)
PBT	45	29	96	51.6	(53.4)	197	191	3.3
Tax	9	9	34	(0.5)	(73.0)	63	63	(0.1)
PAT	35	20	62	75.7	(42.5)	134	128	5.0
Adj PAT	35	20	62	75.7	(42.5)	134	126	6.0
Adj PAT margin	6.4%	5.1%	10.5%	132 bps	(412) bps	7.1%	7.7%	(722) bps
No of equity shares (mn)	5.8	5.8	5.8	-	-	5.8	5.8	-
Adj EPS (Rs)	6.1	3.5	10.7	75.7	(42.5)	23.2	21.9	6.0

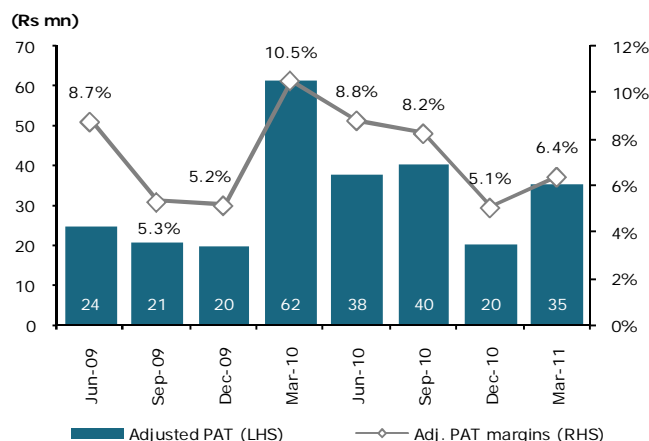
Source: Company, CRISIL Equities

Operating income and EBITDA margins



Source: Company, CRISIL Equities

Quarterly PAT and PAT margin trend



Source: Company, CRISIL Equities

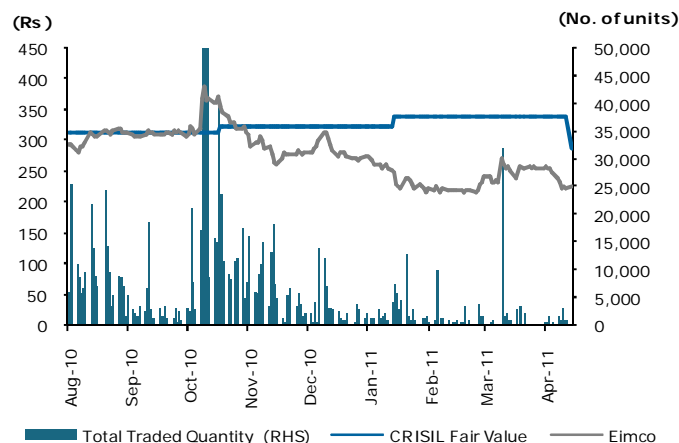
Share price movement



-Indexed to 100

Source: NSE, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

EARNINGS ESTIMATES REVISED DOWNWARDS

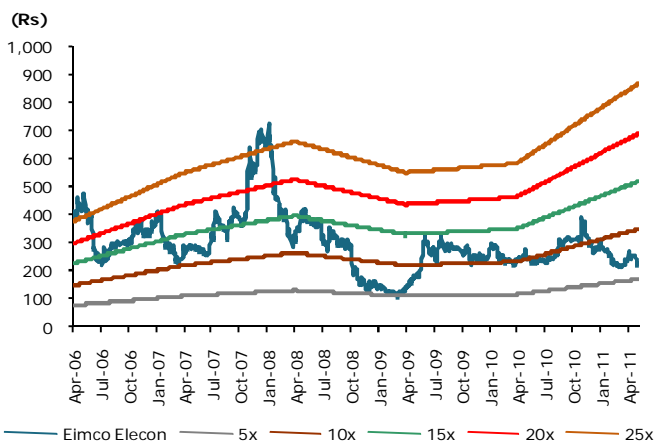
Particulars	Unit	FY12E			FY13E		
		Old	New	% change	Old	New	% change
Revenues	(Rs mn)	2,246	2,122	-5.5%	2,603	2,455	-5.7%
EBITDA	(Rs mn)	394	347	-12.0%	483	431	-10.8%
EBITDA margin	%	17.5	16.3	-116bps	18.5	17.6	-95bps
PAT	(Rs mn)	213	194	-9.1%	270	248	-8.0%
PAT margin	%	9.5	9.1	-38bps	10.4	10.1	-29bps
EPS	Rs	36.8	33.6	-8.82%	46.7	43.0	-7.83%

Source: CRISIL Equities

VALUATION

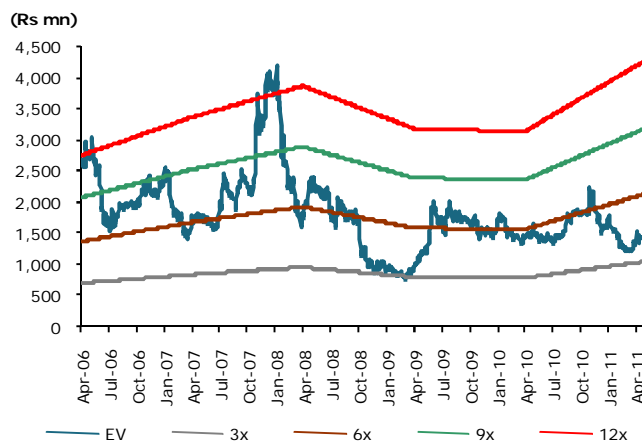
We continue to use the discounted cash flow method to value Eimco Elecon. Due to the revision in our estimates, fair value now stands at Rs 304. At this value, the implied P/E multiples are 9.0x FY12 earnings estimate and 7.1x FY13 earnings estimate.

One-year forward P/E band



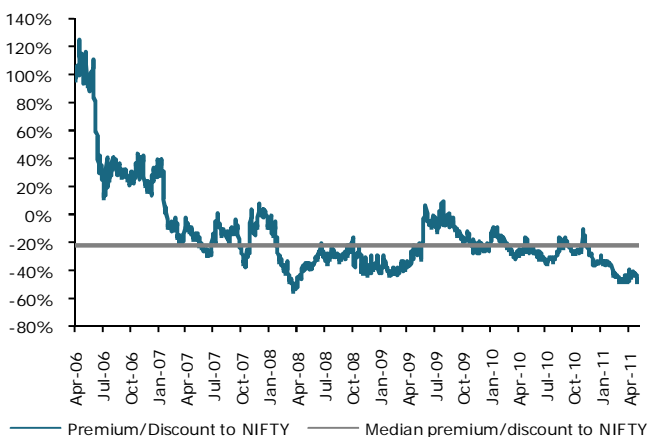
Source: NSE, CRISIL Equities

One-year forward EV/EBITDA band



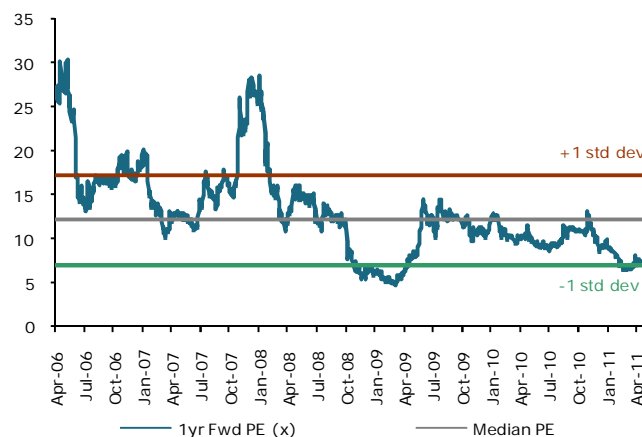
Source: NSE, CRISIL Equities

P/E – premium/discount to NIFTY



Source: NSE, CRISIL Equities

P/E movement



Source: NSE, CRISIL Equities.

CRISIL IER reports released on Eimco Elecon (India) Limited

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
26-Aug-10	Initiating coverage*	4/5	Rs 314	3/5	Rs 298
11-Nov-10	Q2FY11 result update	4/5	Rs 322	3/5	Rs 355
21-Feb-11	Q3FY11 result update	4/5	Rs 339	5/5	Rs 228
03-May-11	Q4FY11 result upate-first cut	4/5	Rs 339	5/5	Rs 234
12-May-11	Q4FY11 result update	4/5	Rs 304	5/5	Rs 230

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Operating income	1,476	1,638	1,874	2,122	2,455
EBITDA	321	266	261	347	431
EBITDA margin	21.8%	16.2%	13.9%	16.3%	17.6%
Depreciation	74	69	64	64	68
EBIT	247	196	197	282	363
Interest	17	12	2	0	0
Operating PBT	230	185	195	282	363
Other income	3	6	1	8	10
Exceptional inc/(exp)	0	1	-	-	-
PBT	234	192	197	291	373
Tax provision	81	64	63	97	125
Minority interest	-	-	-	-	-
PAT (Reported)	152	128	134	194	248
Less: Exceptionals	0	1	-	-	-
Adjusted PAT	152	127	134	194	248

Ratios

	FY09	FY10	FY11#	FY12E	FY13E
Growth					
Operating income (%)	24.8	11.0	14.4	13.2	15.7
EBITDA (%)	14.6	(17.3)	(1.7)	32.8	24.3
Adj PAT (%)	20.3	(16.8)	5.8	44.4	28.3
Adj EPS (%)	20.3	(16.8)	5.8	44.4	28.3
Profitability					
EBITDA margin (%)	21.8	16.2	13.9	16.3	17.6
Adj PAT Margin (%)	10.3	7.7	7.2	9.1	10.1
RoE (%)	13.5	10.2	10.0	13.1	14.9
RoCE (%)	19.5	14.0	14.1	19.1	21.8
RoIC (%)	14.5	10.8	10.3	15.2	18.1
Valuations					
Price-earnings (x)	5.0	10.6	9.9	6.9	5.3
Price-book (x)	0.6	1.0	0.9	0.9	0.8
EV/EBITDA (x)	2.9	5.4	5.0	3.4	2.6
EV/Sales (x)	0.7	0.9	0.7	0.6	0.5
Dividend payout ratio (%)	17.7	21.0	17.2	14.9	13.9
Dividend yield (%)	3.6	2.0	1.7	2.2	2.6
B/S ratios					
Inventory days	268	245	189	188	191
Creditors days	87	87	54	54	54
Debtor days	128	114	94	94	94
Working capital days	203	230	208	192	187
Gross asset turnover (x)	1.6	1.8	2.1	2.3	2.6
Net asset turnover (x)	4.0	5.2	7.1	9.9	13.8
Sales/operating assets (x)	4.0	6.5	9.8	13.8	13.8
Current ratio (x)	4.3	4.0	5.0	5.4	5.5
Debt-equity (x)	0.2	0.1	-	-	-
Net debt/equity (x)	0.1	0.1	(0.0)	(0.1)	(0.1)
Interest coverage	14.8	17.0	99.0	120,020.4	154,401.1

Per share

	FY09	FY10	FY11#	FY12E	FY13E
Adj EPS (Rs)	26.4	22.0	23.2	33.6	43.0
CEPS	39.3	34.0	34.3	44.7	54.8
Book value	206.4	224.0	242.5	270.2	306.2
Dividend (Rs)	4.7	4.7	4.0	5.0	6.0
Actual o/s shares (mn)	5.8	5.8	5.8	5.8	5.8

Balance Sheet

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Liabilities					
Equity share capital	58	58	58	58	58
Reserves	1,133	1,234	1,341	1,501	1,709
Minorities	-	-	-	-	-
Net worth	1,191	1,292	1,399	1,559	1,767
Convertible debt	-	-	-	-	1
Other debt	203	111	-	-	-
Total debt	203	111	-	-	1
Deferred tax liability (net)	35	27	17	27	27
Total liabilities	1,429	1,430	1,416	1,586	1,795
Assets					
Net fixed assets	345	289	242	187	169
Capital WIP	-	3	0	0	0
Total fixed assets	345	291	242	187	169
Investments	39	26	63	63	63
Current assets					
Inventory	698	772	727	765	885
Sundry debtors	534	535	503	570	659
Loans and advances	80	122	113	128	149
Cash & bank balance	27	31	23	155	192
Marketable securities	-	-	-	-	-
Total current assets	1,338	1,460	1,366	1,618	1,885
Total current liabilities	309	362	271	298	340
Net current assets	1,029	1,097	1,095	1,320	1,545
Intangibles/Misc. expenditure	17	16	16	16	16
Total assets	1,429	1,430	1,416	1,586	1,794

Cash flow

(Rs mn)	FY09	FY10	FY11#	FY12E	FY13E
Pre-tax profit	234	191	197	291	373
Total tax paid	(91)	(72)	(73)	(87)	(125)
Depreciation	74	69	64	64	68
Working capital changes	(360)	(64)	(7)	(92)	(188)
Net cash from operations	(143)	125	181	176	128
Cash from investments					
Capital expenditure	(34)	(16)	(14)	(10)	(50)
Investments and others	51	13	(37)	-	-
Net cash from investments	17	(3)	(51)	(10)	(50)
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	130	(92)	(111)	-	-
Dividend (incl. tax)	(27)	(27)	(27)	(34)	(40)
Others (incl extraordinary)	0	1	-	-	-
Net cash from financing	103	(118)	(138)	(34)	(40)
Change in cash position	(23)	5	(8)	132	38
Closing cash	27	31	23	155	192

Quarterly financials

(Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Operating income	587	431	490	398	555
Change (q-o-q)	53%	-26%	14%	-19%	39%
EBITDA	114	76	80	45	59
Change (q-o-q)	155%	-33%	5%	-44%	29%
EBITDA margin	19.5%	17.7%	16.4%	11.4%	10.6%
PAT	62	38	40	20	35
Adj PAT	62	38	40	20	35
Change (q-o-q)	209%	-38%	6%	-50%	76%
Adj PAT margin	10.5%	8.8%	8.2%	5.1%	6.4%
Adj EPS	10.7	6.6	7.0	3.5	6.1

Note: All ratios are computed on Adj PAT

#- Based on abridged financials

Source: Company, CRISIL Equities estimate

CRISIL Independent Equity Research Team

Mukesh Agarwal	Senior Director	+91 (22) 3342 3035	magarwal@crisil.com
Tarun Bhatia	Director, Capital Markets	+91 (22) 3342 3226	tbhatia@crisil.com
Chetan Majithia	Head, Equities	+91 (22) 3342 4148	chetanmajithia@crisil.com
Sudhir Nair	Head, Equities	+91 (22) 3342 3526	snair@crisil.com
Prasad Koparkar	Head, Research	+91 (22) 3342 3137	pkoparkar@crisil.com
Ajay D'Souza	Head, Research	+91 (22) 3342 3567	adsouza@crisil.com
Aparna Joshi	Head, Research	+91 (22) 3342 3540	apjoshi@crisil.com
Manoj Mohta	Head, Research	+91 (22) 3342 3554	mmohta@crisil.com
Sridhar C	Head, Research	+91 (22) 3342 3546	sridharc@crisil.com

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To know more about CRISIL IER, please contact our team members:

Vinaya Dongre – Head, Business Development
Email : vdongre@crisil.com | Phone : 9920225174

Ashish Sethi – Head, Business Development
Email : asethi@crisil.com | Phone : 9920807575

Sagar Sawarkar – Senior Manager, Business Development
Email : ssawarkar@crisil.com | Phone : 9821638322

Regional Contacts:

Ahmedabad / Mumbai / Pune

Vishal Shah - Manager, Business Development
Email : vishah@crisil.com | Phone : 9820598908

Hyderabad

Kaliprasad Ponnuru - Manager, Business Development
Email : kponnuru@crisil.com | Phone : 9642004668

Bengaluru / Chennai

Anand Krishnamoorthy - Manager, Business Development
Email : ankrishnamoorthy@crisil.com | Phone : 9884704111

Kolkata / Delhi

Priyanka Agarwal - Manager, Business Development
Email : priyagarwal@crisil.com | Phone : 9903060685



Head Office: CRISIL House, Central Avenue, Hiranandani Business Park,
Powai, Mumbai - 400 076
Phone : 91-22-3342 3000

Web: www.crisil.com

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