

Elecon's consolidated FY16 Net Revenue at Rs. 1,285.3 crores Announces Merger of Elecon Engineering Company Limited and Elecon EPC Projects Limited

Vallabh Vidyanagar, India, April 27th, 2016: Elecon Engineering Company Limited ("Elecon"), one of the largest manufacturers of gears in Asia today announced its financial results for the fourth quarter and full year ended 31st March, 2016. Elecon and Elecon EPC Projects Limited ("Elecon EPC"), also announced a merger of Elecon EPC with Elecon.

Financial Performance

Consolidated FY16 review

- Total Operating revenue was Rs. 1,285.3 crores as compared to Rs. 1,328.9 crores during the corresponding period of previous year.
- EBITDA stood at Rs. 150.0 crores as compared to Rs. 169.8 crores during the corresponding period of previous year, a decline of 12%.
- EBITDA Margin at 11.7% for FY16 as against 12.8% in FY 15
- Net profit stood after taxes, minority interest and share of profit/loss of associates stood at Rs. 38.2 crores for FY16 as compared to Rs. 16.3 crores in the corresponding period of the previous year, an increase of 134%.
- Basic EPS stood at Rs. 3.51 as against Rs. 1.50 in FY 15, an increase of 134%

Standalone FY16 review

- Total Operating income was Rs. 518.8 crores for FY16 as compared to Rs. 503.2 crores in the previous financial year, an increase of 3%
- EBITDA stood at Rs. 104.7 crores as compared to Rs. 106.5 crores during previous financial year, a decline of 2%
- EBITDA Margin at 20.2% for FY16 as against 21.2 % in FY15
- Net profit stood at Rs. 43.2 crores for FY16 as compared to Rs. 33.2 crores in the previous financial year, an increase of 30%
- Basic EPS stood at Rs. 3.96 as against Rs. 3.05, an increase of 30% over previous financial year.

Consolidated Q4FY16 review

- Total Operating income was Rs. 414.7 crores for Q4FY16 as compared to Rs. 464.0 crores in the corresponding period of the previous year.
- EBITDA stood at Rs. 74.5 crores as compared to Rs. 84.2 crores during the corresponding period of previous year
- EBITDA Margin remained similar at 18.0% for Q4FY16
- Net profit stood at Rs. 28.4 crores for Q4FY16 as compared to Rs. 31.7 crores in the corresponding period of the previous year
- Basic EPS stood at Rs. 2.61 as against Rs. 2.91 in the corresponding quarter of last fiscal

Standalone Q4FY16 review

- Total Operating income was Rs. 189.5 crores for Q4FY16 as compared to Rs. 176.0 crores in the corresponding period of the previous year reflecting an increase of 8%
- EBITDA stood at Rs. 35.4 crores as compared to Rs. 42.0 crores during the corresponding period of previous year, a decline of 16%.
- EBITDA Margin at 18.7 % for Q4FY16 as against 23.9% in Q4FY15
- Net profit stood at Rs. 15.5 crores for Q4FY16 as compared to Rs. 22.8 crores in the corresponding period of the previous year

- Basic EPS stood at Rs. 1.43 as against Rs.2.09 in the corresponding quarter of last fiscal

Commenting on the Company's performance for FY2016, Mr. Prayasvin Patel, CMD said "We had a sequential improvement in the margins of gear business as a result of a better product mix and efficiencies in manufacturing. The quarter was very eventful for the company as we booked two large scale orders in the naval defence space. Despite the headwinds in the economy, these orders will add momentum to our business as we enter the new fiscal. In the material handling business, while we grapple with macro-economic challenges, we have been able to improve consolidated financial position on a quarter on quarter basis. Going forward, we will strive to ensure that we continue excelling in our technology and execution such that our reputation continues to enhance in the market place."

Corporate Action

Dividend

The Board of Directors of the Company has recommended a dividend of 55% (Rs. 1.10 per share) for its shareholders.

Merger of Elecon and Elecon EPC

Key Highlights

- Shareholders of Elecon EPC will receive for every 2 (Two) Equity shares held, 37 (Thirty Seven) Equity shares in Elecon.
- Strategy remains unchanged, with continued focus on delivering attractive growth, sustainable development and long term value for shareholders.
- Completion expected in last quarter of FY 2017 subject to all regulatory and shareholder approvals.

Mr. Prayasvin Patel, Chairman and Managing Director of Elecon, said *"The merger of Elecon EPC into Elecon was necessitated as some of the advantages that we envisaged in the earlier demerger did not percolate down to both the divisions. While we did see some momentum in the Transmission business, the material handling business was bogged down by tough industry and macroeconomic conditions. We believe the merger of the EPC business back into the parent would deliver economies of scale and financial benefits that would benefit both the Company and the shareholders."*

He also added, *"The independent Directors unanimously recommend the proposed combination and we as a Company are committed to our objective of maximizing shareholder returns over a long term period."*

Mr. Pradip Patel, Director of Elecon EPC, said *"The merger with Elecon will enable smooth functioning of business verticals currently housed within Elecon EPC and would improve operational efficiencies within the said verticals. India's EPC Industry is facing a slow down due to various reasons including delay in governmental clearances, environmental approvals and land acquisitions etc. The Company's strategy on moving away from EPC projects and focusing solely on the equipment's business would further cement the consolidation with Elecon which is being envisaged."*

Strategic Rationale:

- The Scheme envisages amalgamation of Elecon EPC into Elecon, resulting in consolidation of the business in one entity and strengthening the position of the merged entity, by enabling it to harness and optimize the synergies of the two companies.
- The proposed amalgamation of Elecon EPC into Elecon is in line with the global trends to achieve size, scale, integration and greater financial strength and flexibility and in the interests of maximizing shareholder value.
- The merged entity is likely to achieve higher long-term financial returns that could not be achieved by the companies individually.

- Elecon EPC and Elecon believe that the financial, managerial and technical resources, personnel capabilities, skills, expertise and technologies of Elecon EPC and Elecon pooled in the merged entity, will lead to increased competitive strength, cost reduction and efficiencies, productivity gains, and logistic advantages, thereby significantly contributing to future growth.
- Enable Elecon to use the resources of Elecon EPC and vis-a-versa and generate synergy in operations.
- The consolidated entity would be able to utilize its full potential and leverage on the combined financial strength as well as optimize the use of resources for the purpose of future growth.
- Reduction of overheads and other expenses, facilitate administrative convenience and ensure optimum utilization of available services and resources.

Benefits for Shareholders of Elecon:

- It is projected that businesses of Elecon and Elecon EPC consolidated and housed under one entity would result in significant improvement in profitability and operational efficiency as well as enable focused growth of both the business verticals. This would result in significant improvement in returns to shareholders of Elecon.

Proposed Transaction

- Merger of Elecon EPC with Elecon through court approved Scheme of Arrangement under Section 391-394 of the Companies Act, 1956 or corresponding applicable provisions of Companies Act, 2013.
- On completion of merger, shareholders of Elecon EPC (except Elecon) will receive for every 2 Equity Shares held:
 - 37 equity shares in Elecon of face value Rs. 2 per share
- No shares will be issued by Elecon towards shares held by it in Elecon EPC and all those shares would be cancelled as part of the Scheme.
- Following completion of amalgamation of Elecon EPC with Elecon:
 - Promoter's shareholding in Elecon will increase from 57.34% to 58.58%
 - Public shareholding in Elecon will decrease from 42.66% to 41.42%
- The Transaction is subject to approval from public shareholders of Elecon, shareholders of Elecon EPC, Stock Exchanges where equity shares of Elecon are listed, Securities and Exchange Board of India, Gujarat High Court and other regulatory authorities as applicable.
- The Transaction will be tax neutral for Elecon, Elecon EPC and their shareholders under Indian Laws.
- All the existing equity shares of Elecon will continue to be listed on BSE Limited and National Stock Exchange of India Limited coupled with fresh shares being issued by Elecon to the shareholders of Elecon EPC.
- Accounting for the Transaction would be done as per Purchase Method as prescribed by Accounting Standard 14 issued by Institute of Chartered Accountants of India. Under this method, all the assets and liabilities of Elecon EPC would be recorded in the books of Elecon at their fair market value. Difference between net assets recorded in the books of Elecon and consideration issued in the form of equity shares of Elecon would be either be recorded as goodwill or capital reserve, as the case may be.
- The Transaction is subject to compliance with all the applicable laws and rules and regulations the stock exchanges i.e. BSE Limited and National Stock Exchange of India Limited where shares of Elecon are listed.
- The Transaction is expected to close in the last quarter of FY 2017.

Recommendations, Financial Advisers and Fairness Opinion

- The Board of Directors of Elecon has unanimously approved the merger as being in the best interests of their respective shareholders.
- Two Independent Chartered Accountants have provided their joint recommendation on the exchange ratio for consideration by the Boards of Elecon EPC and Elecon.
- The Board of Directors of Elecon has received a fairness opinion from SEBI approved Merchant Banker with regard to the fairness of the exchange ratio.
- Transaction governance is in line with Indian regulations and best practices.

Key Transaction Approvals

- Shareholder approvals:
 - Majority of public shareholders of Elecon would be required to approve the scheme through postal ballot and e-voting
 - Meeting directed to be convened by the Gujarat High Court in respect of Elecon and Elecon EPC, if any:
 - Majority in number of shareholders voting at the shareholders meeting are required to vote in favor of the Transaction; and
 - 75% in value of shareholders present and voting at the shareholder meeting are required to vote in favor of the Transaction.
- Approval of the Gujarat High Court would be required since registered offices of Elecon and Elecon EPC are situated in the State of Gujarat, India
- Since the shares of the Elecon are listed on stock exchanges, the Securities and Exchange Board of India as well as the stock exchanges where shares of Elecon are listed i.e. BSE and NSE would be required to provide their 'no objection' to the scheme
- Regulatory and other approvals as may be required

Analyst Day/Meeting

The Company is hosting an analyst day for investors on 29th April, 2016. Details of the same will be available on the Company's website.

Standalone Financial Statement

| Particulars (Rs. Cr.) | Q4FY16 | Q3FY16 | Q/Q% | Q4FY15 | Y/Y% | FY16 | FY15 | Y/Y% |
|---|--------------|--------------|------------|--------------|-----------|--------------|--------------|-----------|
| Income from Operations | | | | | | | | |
| Net Sales/ Income from Operations | 188.8 | 119.4 | | 174.6 | | 515.1 | 497.8 | |
| Other Operating Income | 0.7 | 0.9 | | 1.4 | | 3.7 | 5.4 | |
| Total Income from Operations (Net) | 189.5 | 120.3 | 58% | 176.0 | 8% | 518.8 | 503.2 | 3% |
| Expenses | | | | | | | | |
| (a) Cost of Material Consumed | 84.0 | 83.7 | | 88.8 | | 295.3 | 264.0 | |
| (b) Purchase of stock in trade | | | | | | | | |
| (c) Changes in inventories/WIP | 30.1 | (19.2) | | 7.1 | | (20.9) | 12.9 | |
| (d) Employee Benefit Expense | 12.8 | 12.0 | | 8.2 | | 48.5 | 36.9 | |
| (e) Depreciation & Amortization | 11.9 | 11.9 | | 14.9 | | 47.1 | 51.6 | |
| (f) Other Expenditure | 27.3 | 25.1 | | 29.9 | | 91.3 | 82.8 | |
| Total Expenses | 166.0 | 113.5 | | 148.9 | | 461.3 | 448.3 | |

| | | | | | | | | |
|--|------|------|------|------|------|------|------|-----|
| EBIT Before Other Income / Exceptional Items | 23.5 | 6.8 | 247% | 27.1 | -13% | 57.6 | 54.9 | 5% |
| Other Income | 7.8 | 25.6 | | 13.1 | | 39.0 | 22.7 | |
| EBIT Before Exceptional Items | 31.3 | 32.4 | -3% | 40.2 | -22% | 96.6 | 77.6 | 24% |
| Finance Costs | 9.2 | 9.2 | | 7.8 | | 35.4 | 30.0 | |
| PBT Before Exceptional Items | 22.2 | 23.2 | -4% | 32.4 | -32% | 61.2 | 47.6 | 28% |
| Exceptional Item | | | | | | | | |
| PBT | 22.2 | 23.2 | -4% | 32.4 | -32% | 61.2 | 47.6 | 28% |
| Tax Expense | 6.6 | 6.1 | | 9.6 | | 18.1 | 14.5 | |
| PAT | 15.5 | 17.1 | -9% | 22.8 | -32% | 43.2 | 33.2 | 30% |
| | | | | | | | | |
| Paid-up Equity Share Capital (FV of Rs.2/-) | 21.8 | 21.8 | | 21.8 | | 21.8 | 21.8 | |
| Earnings Per Share | | | | | | | | |
| Basic EPS (Not annualized) | 1.43 | 1.57 | -9% | 2.09 | -32% | 3.96 | 3.05 | 30% |
| Diluted EPS (Not annualized) | 1.43 | 1.57 | -9% | 2.09 | -32% | 3.96 | 3.05 | 30% |

Consolidated Financial Statement

| Particulars (Rs. Cr.) | Q4FY16 | Q3FY16 | Q/Q% | Q4FY15 | Y/Y% | FY16 | FY15 | Y/Y% |
|--|--------------|--------------|-------------|--------------|-------------|----------------|----------------|-------------|
| Income from Operations | | | | | | | | |
| Net Sales/ Income from Operations | 412.0 | 328.3 | | 458.1 | | 1,274.9 | 1,311.8 | |
| Other Operating Income | 2.7 | 2.0 | | 5.9 | | 10.4 | 17.1 | |
| Total Income from Operations (Net) | 414.7 | 330.4 | 26% | 464.0 | -11% | 1,285.3 | 1,328.9 | -3% |
| Expenses | | | | | | | | |
| (a) Cost of Material Consumed | 204.9 | 312.9 | | 266.8 | | 830.2 | 787.4 | |
| (b) Purchase of stock in trade | 1.7 | 0.9 | | 8.5 | | 4.4 | 6.5 | |
| (c) Changes in inventories/WIP | 44.7 | (85.8) | | 11.2 | | (32.8) | 29.8 | |
| (d) Employee Benefit Expense | 37.8 | 38.2 | | 32.3 | | 149.6 | 143.3 | |
| (e) Depreciation & Amortization | 16.6 | 16.7 | | 20.2 | | 66.1 | 71.6 | |
| (f) Other Expenditure | 51.1 | 54.8 | | 61.0 | | 184.0 | 192.2 | |
| Total Expenses | 356.8 | 337.6 | | 400.0 | | 1,201.5 | 1,230.7 | |
| EBIT Before Other Income / Exceptional Items | 57.9 | (7.3) | -895% | 64.0 | -9% | 83.9 | 98.2 | -15% |
| Other Income | 2.3 | 30.5 | | 11.1 | | 36.2 | 16.6 | |
| EBIT Before Exceptional Items | 60.3 | 23.2 | 160% | 75.1 | -20% | 120.0 | 114.8 | 5% |
| Finance Costs | 20.9 | 20.4 | | 24.7 | | 74.7 | 80.9 | |
| PBT Before Exceptional Items | 39.4 | 2.7 | 1340% | 50.5 | -22% | 45.3 | 33.9 | 33% |
| Exceptional Item | - | - | | - | | - | - | |
| PBT | 39.4 | 2.7 | 1340% | 50.5 | -22% | 45.3 | 33.9 | 33% |
| Tax Expense | 0.8 | 6.2 | | 10.9 | | 12.9 | 16.8 | |
| PAT | 38.6 | (3.5) | | 39.5 | | 32.3 | 17.1 | 89% |
| Share of Profit / (loss) of associates | (0.2) | 0.1 | | 0.1 | | | 0.2 | |
| Minority interest | (10.1) | 7.7 | | (7.9) | | 5.9 | (1.0) | |
| Consolidated PAT | 28.4 | 4.3 | 560% | 31.7 | -10% | 38.2 | 16.3 | 134% |

| | | | | | | | | |
|---|------|------|------|------|------|------|------|------|
| Paid-up Equity Share Capital (FV of Rs.2/-) | 21.8 | 21.8 | | 21.8 | | 21.8 | 21.8 | |
| Earnings Per Share | | | | | | | | |
| Basic EPS (Not annualized) | 2.61 | 0.39 | 569% | 2.91 | -10% | 3.51 | 1.50 | 134% |
| Diluted EPS (Not annualized) | 2.61 | 0.39 | 569% | 2.91 | -10% | 3.51 | 1.50 | 134% |

Standalone and Consolidated Balance Sheet

| Particulars (Rs. Cr.) | FY16 | FY15 | FY16 | FY15 |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Equity and Liability | Standalone | | Consolidated | |
| (1) Shareholders Funds | | | | |
| (a) Share Capital | 21.8 | 21.8 | 21.8 | 21.8 |
| (b) Reserves and Surplus | 517.3 | 488.6 | 540.1 | 513.8 |
| | 539.1 | 510.4 | 561.9 | 535.6 |
| (2) Minority Interest | - | | 30.1 | 36.0 |
| (3) Non - Current Liabilities | - | | - | |
| (a) Long-term borrowings | 130.9 | 89.3 | 181.4 | 163.2 |
| (b) Deferred Tax Liabilities | 28.5 | 32.8 | 24.0 | 36.1 |
| (c) Other Long term liabilities | 0.6 | 1.1 | 119.6 | 113.1 |
| (d) Long-term provisions | 1.9 | 1.7 | 3.5 | 3.2 |
| | 162.0 | 124.9 | 328.5 | 315.5 |
| (4) Current liabilities | - | | - | |
| (a) Short-term borrowings | 161.0 | 138.4 | 385.8 | 339.6 |
| (b) Trade payables | 229.6 | 208.7 | 536.2 | 515.3 |
| (c) Other current liabilities | 58.6 | 56.3 | 163.5 | 204.3 |
| (d) Short-term provisions | 15.7 | 16.2 | 20.6 | 21.3 |
| | 465.0 | 419.6 | 1,106.1 | 1,080.5 |
| TOTAL | 1,166.2 | 1,054.9 | 2,026.7 | 1,967.6 |
| Assets | - | | - | - |
| (1) Goodwill on Consolidation | - | | 52.6 | 52.6 |
| (2) Non-current assets | - | | - | - |
| (a) Fixed assets | 312.5 | 335.6 | 431.6 | 474.3 |
| (b) Non-current investments | 234.2 | 199.2 | 3.7 | 6.1 |
| (c) Net Deferred Tax Assets | - | | 2.9 | 3.4 |
| (d) Long-term loans and advances | 12.8 | 14.7 | 24.8 | 17.1 |
| (e) Other non-current assets | 0.8 | 0.8 | 65.1 | 53.7 |
| | 560.3 | 550.3 | 528.2 | 607.2 |
| (3) Current assets | - | | - | |
| (a) Current investments | - | | 15.8 | 9.3 |
| (b) Inventories | 139.0 | 130.2 | 365.6 | 346.3 |
| (c) Trade receivables | 280.3 | 226.8 | 898.4 | 858.2 |
| (d) Cash and Bank Balances | 10.6 | 3.1 | 35.6 | 31.5 |
| (e) Short-term loans and advances | 49.9 | 16.9 | 120.6 | 108.8 |
| (f) Other current assets | 126.1 | 127.6 | 9.9 | 6.3 |
| | 605.9 | 504.5 | 1,445.9 | 1,360.4 |
| Total | 1,166.2 | 1,054.9 | 2,026.7 | 1,967.6 |

About Elecon Engineering Company Ltd.

Elecon Engineering Company Ltd (BSE code: 505700, NSE code: ELECON) is one of Asia's largest gear manufacturing Company with vast experience of about five decades and significant business presence in India and abroad. The Company designs and manufactures worm gears; parallel shaft and right angle shaft; helical and spiral level helical gears; fluid geared and flexible couplings, as well as planetary gear boxes.

The Company through its subsidiary Elecon EPC also manufactures material handling equipment, mining equipment, casting processes amongst others. The company was incorporated in 1960 by Shri Ishwarbhai B Patel and has its headquarters in Vallabh Vidyanagar, Gujarat. For more info visit: www.elecon.com

If you have any questions or require further information, please feel free to contact

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