

CMP: ₹ 517

Target: ₹ 620 (20%)

Target Period: 12 months

BUY

February 12, 2026

US & Europe trade tailwind strengthen growth visibility...

About the stock: Elgi Equipment (Elgi) manufactures a wide range of air compressors (~91% of revenue) and automotive equipment (~9%).

- Elgi is the second largest player in the Indian air compressor market (~22% market share) and among the top eight players globally
- Expansion in new international markets to drive long term incremental growth (rest of the world contributed ~48% in FY25)

Q3FY26 performance: Elgi reported a strong consolidated Q3FY26 performance, with revenue rising 18% YoY to ₹1,004 crore, led by strong traction across India, the Middle East and the Americas, while Europe remained subdued due to macro headwinds. EBITDA increased 20.4% YoY to ₹144 crore, with EBITDA margin expanding by 24 bps YoY to 14.3%, reflecting operating leverage. PAT grew 18% YoY to ₹95 crore, supported by broad-based demand, including double-digit growth in the automotive segment.

Investment Rationale:

- **Europe Turnaround & US Margin Upside as Key Earnings Catalysts:** Europe is currently operating at cost-managed breakeven, with restructuring measures underway to recalibrate the cost base and drive profitability beyond breakeven by FY27E. One-time reorganization expenses are largely behind, and a structurally lower cost base from next fiscal should enable meaningful operating leverage as demand stabilizes. In the US, the business is already profitable despite tariff headwinds, with earlier price hikes (6–7%) more than offsetting the 50% tariff impact. As high-cost inventory normalizes and tariff rates reduce, management expects margin expansion from Q2FY27 onward, positioning both geographies as key earnings growth drivers over the medium term.
- **Strengthening Competitive Positioning through Product & Cost Strategy:** The planned launch of low-cost screw compressors (priced 30–40% lower) to counter Chinese imports, along with Demand Match technology delivering 6–17% energy efficiency gains, strengthens Elgi's value proposition. Continued investments (1.5–2% of revenue) in IT & digital initiatives with associated cost for new talent, advisory enhance long-term competitiveness and pricing power, supporting sustainable market share gains in key markets.

Rating and Target Price

- With margin recovery visibility supported by Europe cost reset and US tariff led profitability expansion. We expect Revenue and PAT to grow at 12.2% and 17.3% CAGR over FY25-FY28E.
- We maintain **Buy** on Elgi with a Target Price of ₹620 (based on 35x P/E on FY28E EPS)

Key Financial Summary

Particulars (Rs. in crore)	FY23	FY24	FY25	2 Year CAGR (FY23-FY25)	FY26E	FY27E	FY28E	3 Year CAGR (FY25-FY28E)
Net Sales	3,040.7	3,217.8	3,510.4	7.4%	3,879.0	4,344.5	4,952.7	12.2%
EBITDA	432.8	486.0	524.9	10.1%	593.5	729.9	832.1	16.6%
EBITDA Margin (%)	14.2	15.1	15.0		15.3	16.8	16.8	
Net Profit	370.8	311.9	350.1	-2.8%	390.1	498.6	565.3	17.3%
EPS (₹)	11.7	9.8	11.0		12.3	15.7	17.8	
P/E (x)	44.2	52.5	46.8		42.0	32.9	29.0	
RoNW (%)	28.0	19.8	18.6		17.6	18.1	18.1	
RoCE (%)	20.4	21.1	21.0		20.2	21.7	21.7	



Particulars

Particular	Rs. (in crore)
Market Capitalization	16319
Total Debt (H1FY26)	425
Cash and Inv (H1FY26)	812
Enterprise Value	15933
52 week H/L (Rs.)	608/390
Equity capital	31.7
Face value (Rs.)	1

Shareholding pattern

%	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	31.2	31.2	31.2	31.2
FII	29.1	27.6	26.1	23.1
DII	5.0	5.2	6.2	8.1
Others	34.7	36.0	36.5	37.6

Price Chart



Key risks

- Slowdown in demand
- Delay in breakeven and growth in international geographies

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Key result and concall highlights

- Elgi reported healthy Q3FY26 performance, with 18% revenue growth to ₹1004 crore, this was contributed by growth momentum in India, North America, Australia, Middle East and Europe whereas South East Asia was weak as compared to previous year.
- EBITDA for Q3FY26 came in at ₹144 crore with EBITDA margin expanding by 24 bps YoY to 14.3%, EBITDA margin was impacted by a 12% YoY increase in employee costs and 23% in Other Expense.
- PAT for Q3FY26 came in at ₹95 up 18% YoY, supported by broad-based demand, including double-digit growth in the automotive segment.
- European operations are currently operating at a cost-managed breakeven level. Management is recalibrating the cost structure with the objective of achieving profitability beyond breakeven by FY27. Lower structural costs from next fiscal should support margin recovery in the region.
- The US business remains profitable despite tariff headwinds. Q3FY26 saw ~1% EBITDA margin impact from higher US tariffs due to fresh inventory at 50% tariff rates. Price increases of 6–7% implemented earlier have more than offset the 50% tariff impact, and with tariff reductions, margin is expected to improve from Q2FY27 once higher-cost inventory is liquidated.
- US inventory levels remain elevated at ~6 months versus a normal 3–3.5 months, driven by optimistic forecasts and tariff-related stocking. A dedicated inventory optimisation plan is underway with management guiding for meaningful normalization by H1FY27E. Full margin benefits from lower tariffs will reflect once legacy inventory bleeds out.
- Annual maintenance Capex remains ~₹50 crore, while a larger ₹500–600 crore investment is planned over five years for new campus development and capacity expansion.
- Company plans to launch low-cost screw compressors (30–40% lower pricing) in Q1/Q2 FY27E to counter Chinese imports while maintaining quality and service differentiation.
- Company is developing new motor technologies to reduce dependence on permanent magnets amid China-related supply risks, with proof of concept expected in 6–8 months.
- India domestic market is expected to deliver low double-digit growth, assuming no major global disruptions. Inquiry levels are improving across segments. Management believes Q4FY26 is likely to be sequentially better than Q3FY26.

Financial Summary

Exhibit 1: Profit and loss statement					
	₹ crore				
(Year-end-March)	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	3,218	3,510	3,879	4,344	4,953
Other Operating Income	-	-	-	-	-
Total Operating Income	3,218	3,510	3,879	4,344	4,953
% Growth		9.1	10.5	12.0	14.0
Other Income	55.0	57.7	70.0	70.0	70.0
Total Revenue	3,273	3,568	3,949	4,414	5,023
Growth (%)	136.8	9.0	10.7	11.8	13.8
Total Raw Material Costs	1,569	1,717	1,920	2,137	2,437
Employee Expenses	655	683	725	804	916
Other expenses	508	585	640	673	768
Total Operating Expense	2,732	2,986	3,286	3,615	4,121
EBITDA	486	525	593	730	832
Growth (%)		8.0	13.1	23.0	14.0
Interest	29.3	30.4	18.8	14.3	9.8
PBDT	512	552	645	786	892
Depreciation	76.6	76.0	116.4	108.6	123.8
PBT before Exceptional	435.0	476.1	528.3	677.0	768.4
Total Tax	128.3	131.5	144.3	184.4	209.1
PAT before MI	311.9	350.1	390.1	498.6	565.3
Minority Interest	-	-	-	-	-
PAT	311.9	350.1	390.1	498.6	565.3
Growth (%)		12.2	11.4	27.8	13.4
EPS	9.8	11.0	12.3	15.7	17.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					
	₹ crore				
(Year-end-March)	FY24	FY25	FY26E	FY27E	FY28E
Profit after Tax	311.9	350.1	390.1	498.6	565.3
Depreciation	76.6	76.0	116.4	108.6	123.8
Interest	29.3	30.4	18.8	14.3	9.8
Cash Flow before WC changes	417.9	456.6	525.2	621.5	699.0
Changes in inventory	(19.9)	13.7	(82.3)	(82.9)	(108.3)
Changes in debtors	(52.4)	(5.3)	(188.7)	(95.6)	(125.0)
Changes in loans & Advances	(0.6)	0.8	(7.3)	(1.4)	(1.8)
Changes in other current assets	203.7	(22.8)	(44.1)	(21.4)	(28.0)
Net Increase in Current Assets	128.0	(57.9)	(322.4)	(201.3)	(263.1)
Changes in creditors	31.6	(8.7)	141.5	57.4	75.0
Changes in provisions	6.1	21.5	24.8	10.1	13.2
Net Increase in Current Liabilities	25.9	34.8	223.8	95.4	124.6
CF from operations	571.8	433.5	426.6	515.5	560.5
Changes in deferred tax assets	(13.1)	(10.5)	-	-	-
(Purchase)/Sale of Fixed Assets	(83.1)	(124.4)	(75.0)	(100.0)	(100.0)
CF from Investing	(108.3)	(146.9)	(75.0)	(100.0)	(100.0)
Dividend and Dividend Tax	(63.3)	(63.2)	(47.5)	(47.5)	(47.5)
CF from Financing	(40.0)	(186.9)	(226.2)	(161.8)	(157.3)
Net Cash flow	423.5	99.7	125.5	253.7	303.2
Opening Cash/Cash Equivalent	350.8	774.3	874.0	999.4	1,253.1
Closing Cash/ Cash Equivalent	774.3	874.0	999.4	1,253.1	1,556.3

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					
	₹ crore				
(Year-end-March)	FY24	FY25	FY26E	FY27E	FY28E
Equity Capital	31.7	31.7	31.7	31.7	31.7
Reserve and Surplus	1,579	1,834	2,176	2,627	3,145
Total Shareholders funds	1,611	1,866	2,208	2,659	3,177
Minority Interest	-	-	-	-	-
Other Non Current Liabilities	-	-	-	-	-
Total Debt	638.1	577.2	417.5	317.5	217.5
Total Liabilities	2,281	2,467	2,649	3,000	3,418
Gross Block	1,137	1,218	1,293	1,393	1,493
Acc: Depreciation	550.4	626.5	742.8	851.4	975.3
Net Block	586.6	591.5	550.1	541.5	517.7
Capital WIP	9.5	53.0	53.2	53.2	53.2
Total Fixed Assets	596.2	644.5	603.3	594.7	570.9
Non Current Assets	64.7	74.4	74.4	74.4	74.4
Inventory	622.2	608.5	690.8	773.7	882.0
Debtors	603.1	608.4	797.1	892.7	1,017.7
Loans and Advances	5.1	4.3	11.6	13.0	14.9
Other Current Assets	111.5	134.3	178.4	199.8	227.8
Cash	774	874	999	1,253	1,556
Total Current Assets	2,119	2,277	2,724	3,179	3,746
Current Liabilities	345.4	336.7	478.2	535.6	610.6
Provisions	37.6	59.1	83.9	94.0	107.2
Net Current Assets	1,579	1,702	1,926	2,286	2,727
Total Assets	2,281	2,467	2,649	3,000	3,418

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end-March)	FY24	FY25	FY26E	FY27E	FY28E
Per Share Data (Rs.)					
EPS	9.8	11.0	12.3	15.7	17.8
BVS	50.8	58.9	69.7	83.9	100.2
Dividend per share	2.0	2.0	1.5	1.5	1.5
Dvidend payout ratio	20.3	18.1	12.2	9.5	8.4
Operating Ratios					
EBITDA Margin	15.1	15.0	15.3	16.8	16.8
PAT Margin	9.7	10.0	10.1	11.5	11.4
Inventory days	70.6	63.3	65.0	65.0	65.0
Debtor days	68.4	63.3	75.0	75.0	75.0
Creditor days	39.2	35.0	45.0	45.0	45.0
Return Ratios					
RoE	19.4	18.8	17.7	18.8	17.8
RoCE	19.7	20.1	19.8	22.0	21.7
RoIC	26.3	28.5	28.3	34.3	36.1
Valuation Ratios					
EV / EBITDA	33.4	30.6	26.6	21.1	18.1
P/E	52.5	46.8	42.0	32.9	29.0
EV / Net Sales	5.0	4.6	4.1	3.6	3.0
Sales / Equity	2.0	1.9	1.8	1.6	1.6
Market Cap / Sales	5.1	4.7	4.2	3.8	3.3
Price to Book Value	10.2	8.8	7.4	6.2	5.2
Turnover Ratios					
Asset turnover	1.4	1.4	1.4	1.4	1.4
Debtors Turnover Ratio	5.6	5.8	5.5	5.1	5.2
Creditors Turnover Ratio	9.8	10.3	9.5	8.6	8.6
Solvency Ratios					
Debt / Equity	0.4	0.3	0.2	0.1	0.1
Current Ratio	3.4	3.4	3.0	3.0	3.0
Quick Ratio	1.8	1.9	1.7	1.7	1.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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