

## Consistency in growth...

**About the stock:** Elgi Equipments (Elgi) manufactures a wide range of air compressors (~92% of revenue) and automotive equipment (~8%).

- 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 ~50% in FY22)

**Q3FY23 Results:** Elgi reported decent Q3FY23 results, with strong EBITDA margin of 14.8%.

- Consolidated revenues came in at ₹ 772.4 crore, up 17.8% YoY
- EBITDA margins came in at 14.8% in Q3FY23 (above our estimates of 13.8%), owing to price hikes taken earlier.
- Consequently, PAT was at ₹ 80.1 crore, up 91.8% YoY

**What should investors do?** Elgi is likely to report strong revenue CAGR of 16% in FY23-25 led by air compressor business with new customer addition and higher margins orders with strong balance sheet.

- We remain long term positive on the stock and change our rating from HOLD to **BUY**

**Target Price and Valuation:** We value Elgi at ₹ 500 i.e. 45x P/E on average EPS for FY24E and FY25E.

### Key triggers for future price performance:

- Going forward, accelerated growth in international markets, new products like disrupted AB series compressors, good traction in India business to drive long term incremental growth
- We expect revenue, EBITDA to grow at CAGR of 16%, 23.7%, respectively, in FY23-25E owing to various cost control initiatives improving margins
- Net debt free b/s, double-digit return ratios & strong cash generation

**Alternate Stock Idea:** We also like Grindwell Norton in our coverage.

- High margin value added products and solutions oriented approach to drive margin expansion (from ~16.7% in FY20 to 21.0% in FY24E)
- BUY with target price of ₹ 2460

### Key Financial Summary

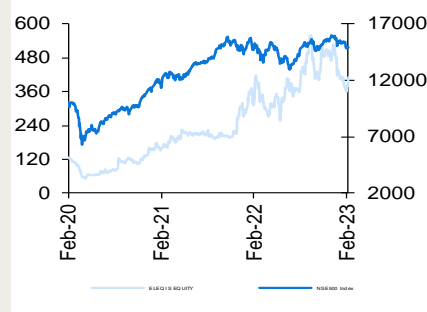
(₹crore)	FY21	FY22	FY23E	5 Year CAGR (FY18-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenue	1,924.1	2,524.7	3,057.4	13.8%	3,577.2	4,113.8	16.0%
EBITDA	215.7	294.9	400.5	17.9%	533.0	612.9	23.7%
EBITDA Margin (%)	11.2	11.7	13.1		14.9	14.9	
Net Profit	102.5	181.0	236.5	19.5%	324.3	376.1	26.1%
EPS (₹)	3.2	5.7	7.5		10.2	11.9	
P/E (x)	127.0	71.9	55.1		40.1	34.6	
E V/EBITDA (x)	60.9	44.8	32.4		24.2	20.6	
RoCE (%)	11.7	18.9	21.2		25.9	24.8	
RoE (%)	11.8	18.7	20.4		22.6	21.3	
Growth		31.2	21.1		17.0	15.0	



Particulars	Amount
Market Capitalization	₹13019 Crore
Total Debt (FY22)	₹326 Crore
Cash & Inv. (FY22)	₹122 Crore
EV (FY22)	₹13223 Crore
52 week H/L (₹)	567 / 249
Equity capital	₹31.7 Crore
Face value	₹1

Shareholding pattern (in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	31.3	31.3	31.2	31.2
FII	26.2	27.0	28.1	29.3
DII	6.0	5.9	5.7	4.8
Others	36.3	35.8	35.1	34.8

### Price Chart



### Recent Events & Key risk

**Key risk:** (i) Uncertainty in global markets, non-profitable or unwanted international expansions (ii) volatile commodity prices

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## Key takeaways of recent quarter....

### Q3FY23 Results: Decent numbers

- Consolidated revenue up 17.8% YoY to ₹ 772.4 crore vs. our estimate of ₹ 820 crore. Standalone revenue (domestic & direct exports compressor) up 7.2% YoY to ₹ 437.9 crore (~57% of consolidated topline) amid led by good demand in domestic market and better exports despite challenges, the automotive (ATS) segment revenue up 7.7% to ₹ 62.2 crore YoY
- EBITDA margins came in strong at 14.8% in Q3FY23 (above our estimates of 13.8%) owing to price hikes taken earlier. Consequently, absolute EBITDA grew 55.1% to ₹ 114.6 crore on a YoY basis (above our estimates of ₹ 113.3 crore) with gross margins of 49.3% vs. 46.1% in Q3FY22
- PAT came in at ₹ 80.1 crore (above our estimates of ₹ 70.4), up 91.8% YoY aided by a strong operational performance

### Q3FY23 Earnings Conference Call highlights

- Elgi's standalone revenue (domestic & direct exports compressor) grew 7.2% YoY to ₹ 437.9 crore (~57% of consolidated topline). The compressor business in the domestic market was close to the targeted numbers by the company. Business growth in Europe, North America and Brazil was strong. Some areas in the Middle East and Africa, Australia and certain South-East Asian countries have small gaps against their plans. The automotive business continues to perform well in tandem with growth in the Indian automotive sector. On the revenue mix, India business contributed about 45% revenue while rest of the world contributed 55%
- In India, there were some segments like water well market that did not do well. Elgi launched new products three years ago and it has been taken well by the market but water well segment per se is absolutely dead currently. The management is confident that whenever this segment rebounds the company will also benefit
- Overall 18% consolidated revenue growth comes from volume 3%, price by 10% and 5% by exchange rate. All sectors are showing traction in terms of orders and enquiries barring spinning sector in the domestic market
- For Q3FY23, the EBITDA miss compared to management expectation was on account of normalisation of fixed cost. Also, the cost of travel has gone up and employee cost has also gone up. Last year fixed cost was subdued (due to Covid) and should expect these to levels to continue, going forward
- Earlier the management had guided that price hikes may get rolled back but the company has no plans to roll back the price hikes and prices will remain at the same level. This resulted in expansions in gross margins this quarter as well and it reached its peak as per management
- Net debt level as on Q3FY23 was at ₹ 120 crore. Elgi Equipments has completed sale of a property of Pattons Inc. US for \$16 mn after brokerage. Post this transaction, the company has become net debt free. This transaction took place in the middle of January 2023. Hence, it will reflect in Q4FY23E. Though inventory is a problem for Elgi and it is working on it to get it normalised. the company is on a selling spree for its non-core assets. This has resulted in higher other income
- Outlook: The company is cautiously optimistic. It will achieve its goals that were set for FY23. For FY24 specific strategies for specific products and market will be given in the next quarter

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	772.4	820.0	655.6	17.8	738.7	4.6	
Other Income	17.9	13.0	10.8	65.6	14.7	22.1	
Total Revenue	790.4	833.0	666.4	18.6	753.4	4.9	
Raw material cost	391.2	397.7	352.8	17.6	369.1	5.7	
Employee Expenses	143.6	173.0	125.3	14.6	137.1	4.7	
Total Other expenses	123.0	136.0	103.7	18.7	119.9	2.6	
Operating Profit (EBITDA)	114.6	113.3	73.9	55.1	112.6	1.8	
EBITDA Margins	14.8	13.8	11.3	357 bps	15.2	-41 bps	Consistency in strong margins
Interest	6.4	2.8	3.0	114.2	5.1	25.7	
Depreciation	19.7	20.0	17.8	11.0	19.6	0.5	
Total Tax	25.1	33.1	21.9	14.5	32.1	-21.8	
PAT	80.1	70.4	41.7	91.8	71.9	11.3	

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
<b>Revenue (Segment-wise)</b>	772.4	820.0	655.6	17.8	738.7	4.6	
Air Compressors	710.8	610.0	598.0	18.9	683.0	4.1	Getting gradual traction in domestic business and decent incremental growth in international market
% of Sales	92%	92%	91%		92%		
Automotive Equipments	62.2	52.0	57.8	7.7	56.0	11.1	
% of Sales	8%	8%	9%		8%		
<b>EBT Margin</b>							
Air Compressors	57.3	75.0	39.5	45.2	71.6	-19.9	
EBT Margin	8.1%	12.3%	6.6%		10.5%		
% of EBT	89.7	94.1	86.0		93.7		
Automotive Equipments	6.6	4.7	6.4	2.8	4.8	37.2	
EBT Margin	10.6%	9.0%	11.1%		8.6%		
% of EBT	10.3	5.9	14.0		6.3		

Source: Company, ICICI Direct Research

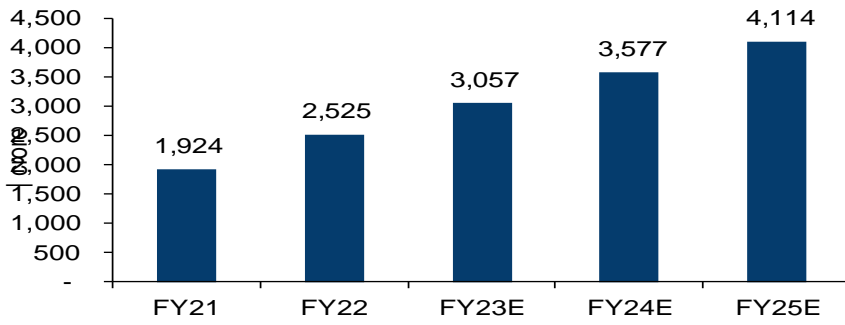
Exhibit 2: Change in estimates

₹crore	FY23		FY24E		%	FY25E		%
	Old	New	Old	New		Old	New	
Revenue	3,057.4	3,607.8	3,577.2		-0.8	4,257.2	4,113.8	-3.4
EBITDA	400.5	505.1	533.0		5.5	604.5	612.9	1.4
EBITDA margin (%)	13.1	14.0	14.9		90 bps	14.2	14.9	70 bps
PAT	236.5	297.4	324.3		9.0	361.5	376.1	4.0
EPS (₹)	7.5	9.4	10.2		8.9	11.4	11.9	4.1

Source: Company, ICICI Direct Research

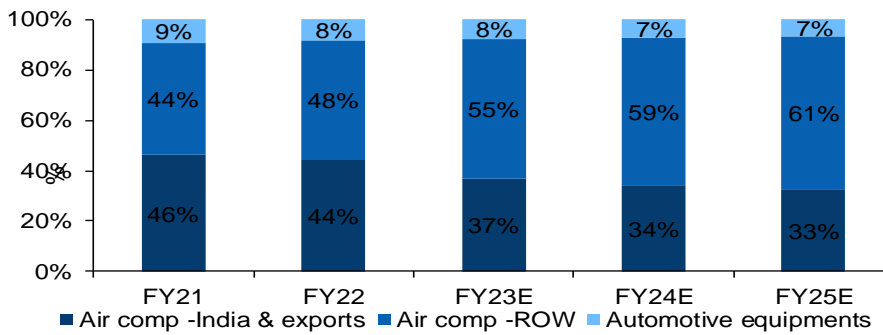
## Financial story in charts

Exhibit 3: Revenue trend



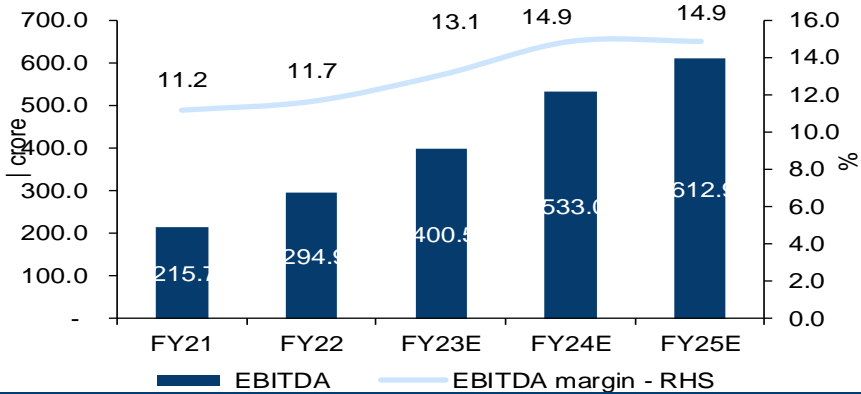
Source: Company, ICICI Direct Research

Exhibit 4: Revenue segmentation



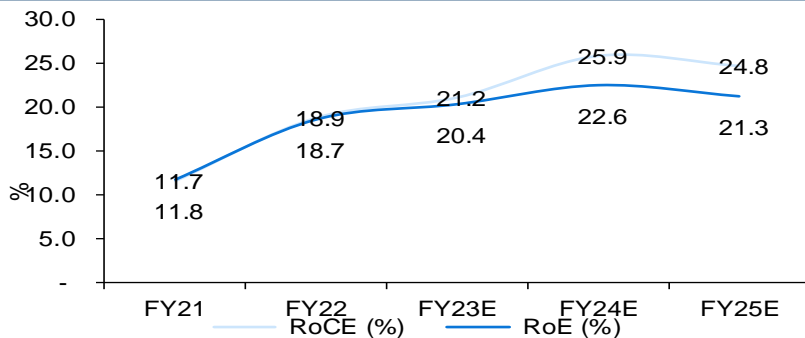
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratios to improve



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹Crоре)	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>2,524.7</b>	<b>3,057.4</b>	<b>3,577.2</b>	<b>4,113.8</b>
Other Operating Income	-	-	-	-
Total Operating Income	2,524.7	3,057.4	3,577.2	4,113.8
% Growth	84.3	21.1	17.0	15.0
Other Income	55.0	24.5	24.5	24.5
Total Revenue	2,579.7	3,081.9	3,601.7	4,138.3
Growth (%)	86.6	19.5	16.9	14.9
Total Raw Material Cos	1,354.5	1,635.7	1,895.9	2,180.3
Employee Expenses	483.9	580.9	661.8	761.0
Other expenses	391.4	440.3	486.5	559.5
Total Operating Expens	2,229.8	2,656.9	3,044.2	3,500.8
<b>EBITDA</b>	<b>294.9</b>	<b>400.5</b>	<b>533.0</b>	<b>612.9</b>
Growth (%)	111.9	35.8	33.1	15.0
Interest	11.1	5.0	0.6	0.6
PBDT	338.7	420.0	556.9	636.8
Depreciation	74.5	97.8	114.5	123.4
PBT before Exceptional	264.2	322.1	442.4	513.4
Total Tax	84.6	87.0	119.5	138.6
PAT before MI	179.6	235.2	323.0	374.8
Minority Interest	-	-	-	-
<b>PAT</b>	<b>181.0</b>	<b>236.5</b>	<b>324.3</b>	<b>376.1</b>
Growth (%)	144.7	30.7	37.1	16.0
EPS*	5.7	7.5	10.2	11.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹Crоре)	FY22	FY23E	FY24E	FY25E
Equity Capital	31.7	31.7	31.7	31.7
Reserve and Surplus	937.2	1,126.1	1,402.9	1,731.5
Total Shareholders funds	968.9	1,157.8	1,434.6	1,763.2
Minority Interest	-	-	-	-
Other Non Current Liabili	48.4	48.4	48.4	48.4
Total Debt	326.2	168.1	20.1	20.1
<b>Total Liabilities</b>	<b>1,363.7</b>	<b>1,394.5</b>	<b>1,523.3</b>	<b>1,851.8</b>
Gross Block	922.2	977.2	1,052.2	1,127.2
Acc: Depreciation	355.9	453.8	568.2	691.7
Net Block	566.2	523.4	483.9	435.5
Capital WIP	5.0	-	-	-
Total Fixed Assets	571.2	523.4	483.9	435.5
Non Current Assets	63.0	63.0	63.0	63.0
Inventory	483.1	544.5	637.0	732.6
Debtors	471.9	544.5	735.0	845.3
Loans and Advances	2.9	9.2	10.7	12.3
Other Current Assets	132.7	140.6	164.6	189.2
Cash	121.6	202.7	130.8	382.6
Total Current Assets	1,212.1	1,441.5	1,678.1	2,162.0
Current Liabilities	318.7	410.4	441.0	507.2
Provisions	15.9	19.7	21.2	24.3
Net Current Assets	718.6	797.3	965.6	1,342.6
<b>Total Assets</b>	<b>1,363.7</b>	<b>1,394.5</b>	<b>1,523.3</b>	<b>1,851.8</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(₹Crоре)	FY22	FY23E	FY24E	FY25E
Profit after Tax	181.0	236.5	324.3	376.1
Depreciation	74.5	97.8	114.5	123.4
Interest	11.1	5.0	0.6	0.6
Cash Flow before WC chang	266.6	339.4	439.4	500.1
Changes in inventory	(140.4)	(61.4)	(92.6)	(95.6)
Changes in debtors	(72.2)	(72.6)	(190.6)	(110.3)
Changes in loans & Advance	3.1	(6.3)	(1.6)	(1.6)
Changes in other current ass	(32.3)	(8.0)	(23.9)	(24.7)
Net Increase in Current Asse	(241.6)	(148.3)	(308.6)	(232.1)
Changes in creditors	29.7	91.8	30.6	66.2
Changes in provisions	2.7	3.8	1.5	3.2
Net Increase in Current Liabil	33.4	150.7	68.4	106.9
<b>CF from operations</b>	<b>58.3</b>	<b>341.8</b>	<b>199.2</b>	<b>374.9</b>
Changes in deferred tax asse	(7.5)	-	-	-
(Purchase)/Sale of Fixed Ass	(54.3)	(50.0)	(75.0)	(75.0)
<b>CF from Investing</b>	<b>(62.1)</b>	<b>(50.0)</b>	<b>(75.0)</b>	<b>(75.0)</b>
Dividend and Dividend Tax	(25.4)	(47.5)	(47.5)	(47.5)
<b>CF from Financing</b>	<b>(136.5)</b>	<b>(210.7)</b>	<b>(196.1)</b>	<b>(48.1)</b>
Net Cash flow	(140.3)	81.1	(71.9)	251.8
Opening Cash/Cash Equivale	262.0	121.6	202.7	130.8
Closing Cash/Cash Equivale	121.6	202.7	130.8	382.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>				
EPS	5.7	7.5	10.2	11.9
BVS	30.6	36.5	45.3	55.6
Dividend per share	0.8	1.5	1.5	1.5
Dividend payout ratio	14.0	20.1	14.7	12.6
<b>Operating Ratios</b>				
EBITDA Margin	11.7	13.1	14.9	14.9
PAT Margin	7.2	7.7	9.1	9.1
Inventory days	69.8	65.0	65.0	65.0
Debtor days	68.2	65.0	75.0	75.0
Creditor days	46.1	49.0	45.0	45.0
<b>Return Ratios</b>				
RoE	18.7	20.4	22.6	21.3
RoCE	18.9	21.2	25.9	24.8
RoIC	16.5	22.5	26.5	28.9
<b>Valuation Ratios</b>				
EV / EBITDA	44.8	32.4	24.2	20.6
P/E	71.9	55.1	40.1	34.6
EV / Net Sales	5.2	4.2	3.6	3.1
Sales / Equity	2.6	2.6	2.5	2.3
Market Cap / Sales	5.2	4.3	3.6	3.2
Price to Book Value	13.4	11.2	9.1	7.4
<b>Turnover Ratios</b>				
Asset turnover	1.7	2.0	2.1	2.0
Debtors Turnover Ratio	5.8	6.0	5.6	5.2
Creditors Turnover Ratio	8.3	8.4	8.4	8.7
<b>Solvency Ratios</b>				
Debt / Equity	0.3	0.1	0.0	0.0
Current Ratio	3.3	2.9	3.3	3.3
Quick Ratio	1.8	1.6	2.0	2.0

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	2,156	2,795	Buy	302544	59.8	74.5	90.1	36.0	29.0	23.9	8.7	10.7	12.1	11.8	13.4	14.6
Siemens Ltd	3,078	3,630	Buy	109628	35.4	46.4	53.8	86.9	66.4	57.3	15.6	18.2	19.1	11.3	13.4	14.0
AIA Engineering (AIAENG)	2,799	3,230	Buy	26404	107.3	97.9	107.0	26.1	28.6	26.2	23.5	18.6	18.2	18.5	14.9	14.3
Thermax (THERMA)	1,955	2,536	Hold	23298	36.5	51.7	61.0	53.5	37.8	32.1	14.6	18.3	18.7	11.4	14.3	14.4
KEC International (KECIN)	461	545	Buy	11856	6.6	24.4	36.3	69.8	18.9	12.7	9.6	18.4	21.8	4.9	15.6	19.4
Greaves Cotton (GREAVE)	137	209	Buy	3169	0.7	3.9	3.6	193.6	35.3	38.3	2.5	10.4	10.6	1.3	7.5	7.7
Elgi Equipment (ELGEQU)	412	520	Hold	13068	7.2	9.4	11.4	57.6	43.9	36.1	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	95	135	Buy	69077	3.2	3.8	4.5	29.5	24.9	21.0	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COC SHI)	478	745	Buy	6290	42.9	38.6	42.8	11.1	12.4	11.2	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,437	5,215	Buy	21934	77.0	108.7	130.3	57.6	40.8	34.1	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	3,001	3,560	Buy	22572	43.5	61.3	71.2	69.0	49.0	42.1	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	143	220	Buy	1389	7.8	9.2	12.1	18.4	15.6	11.8	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	338	385	Buy	4022	8.8	15.1	19.2	38.4	22.4	17.6	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1481	1,555	Buy	7685	18.1	22.0	30.4	81.8	67.4	48.8	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAEER)	2,403	3,300	Buy	80347	151.9	132.7	145.0	15.8	18.1	16.6	27.4	30.5	30.1	26.3	23.1	22.8
ABB (ABB)	2,932	3,275	Buy	62132	25.5	40.5	37.2	115.1	72.4	78.8	45.0	49.2	57.3	11.2	12.9	15.1
Ador Welding (ADOWEL)	869	1,014	Buy	1182	33.2	34.1	48.3	26.2	25.5	18.0	19.9	21.6	26.5	13.6	15.7	19.3
Bharat Dynamics (BHADYN)	908	1,200	Buy	16646	27.3	33.0	42.7	33.3	27.5	21.3	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	744	1,025	Hold	15009	30.3	39.8	46.6	24.6	18.7	16.0	20.0	22.9	23.5	16.1	18.2	18.5
Solar Industries India (SOLIN)	3,914	4,700	Buy	35421	48.8	76.6	99.7	80.3	51.1	39.2	22.5	32.5	34.6	23.9	29.0	28.8
Anup Engineering (THEANU)	1,117	1,080	Buy	1106	62.7	49.5	72.3	17.8	22.6	15.5	15.3	16.6	19.4	12.2	12.5	14.5
Control Prints (CONTROLPR)	448	555	Buy	732	24.7	28.7	34.6	18.1	15.6	13.0	17.9	21.4	23.4	13.8	15.4	16.3
KSB Ltd. (KSBPUM)	1,799	2,180	Buy	6260	43.7	50.0	62.2	41.2	36.0	28.9	15.7	16.0	18.3	14.7	14.9	15.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: < -15%



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## ANALYST CERTIFICATION

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