

Strong margins to sustain...

About the stock: Elgi Equipments (Elgi) manufactures a wide range of air compressors (~92.5% of revenue) and automotive equipment (~7.5%).

- 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 ~60% in FY23)

Q4FY23 Results: Elgi reported strong Q4FY23 results, with strong EBITDA margin of 15.2%.

- Consolidated revenues came in at ₹ 835.7 crore, up 14.9% YoY
- EBITDA margins came in at 15.2% in Q4FY23 (above our estimates of 14.4%), owing to price hikes taken earlier
- Consequently, PAT was at ₹ 170.1 crore, up 132.8% YoY aided by extraordinary income

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 maintain our **BUY** rating

Target Price and Valuation: We value Elgi at ₹ 565 i.e. 45x P/E on FY24EPS.

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 17.5%, 19.6%, respectively, in FY23-25E owing to various cost control initiatives improving margins
- Net debt free b/s, double-digit return ratios & strong cash generation

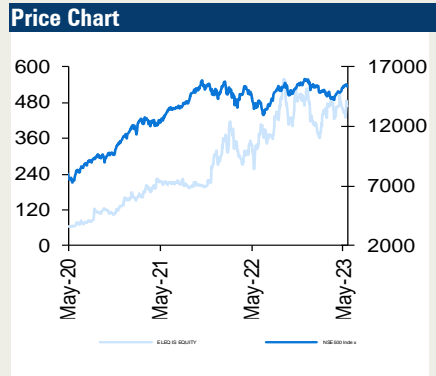
Alternate Stock Idea: We also like Grindwell Norton in our coverage.

- 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 a target price of ₹ 2475



Particulars	
Particular	Amount
Market Capitalization	₹14926 C crore
Total Debt (FY23)	₹509 C crore
Cash & Inv. (FY23)	₹434 C crore
EV (FY23)	₹15002 C crore
52 week H/L (₹)	567 / 312
Equity capital	₹31.7 C crore
Face value	₹1

Shareholding pattern				
(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoti	31.3	31.2	31.2	31.2
FII	27.0	28.1	29.3	29.1
DII	5.9	5.7	4.8	4.9
Others	35.8	35.1	34.8	34.9



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 Financial Summary

(₹crore)	FY21	FY22	FY23	5 Year CAGR (FY18-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenue	1,924.1	2,524.7	3,040.7	13.6%	3,588.0	4,198.0	17.5%
EBITDA	215.7	292.3	458.2	21.1%	559.7	654.9	19.6%
EBITDA Margin (%)	11.2	11.6	15.1		15.6	15.6	
Net Profit	102.5	178.4	290.8	24.5%	336.5	397.9	17.0%
EPS (₹)	3.2	5.6	9.2		10.6	12.6	
P/E (x)	145.6	83.7	51.3		44.4	37.5	
EV/EBITDA (x)	69.7	51.6	32.7		26.4	22.2	
RoCE (%)	11.5	18.2	22.8		21.3	21.3	
RoE (%)	11.8	18.5	23.6		22.1	21.3	
Growth		31.2	20.4		18.0	17.0	

Key takeaways of recent quarter....

Q4FY23 Results:

- Consolidated revenue grew 14.9% YoY to ₹ 835.7 crore vs. our estimate of ₹ 862 crore amid North America & Europe performed better than anticipated. In FY23 ₹ 3040.6 crore grew 20.4% YoY. Standalone revenue (domestic & direct exports compressor) remained flat at ₹ 456.1 crore (~55% of consolidated topline). Automotive (ATS) segment revenue grew 4.4% YoY to ₹ 63.2 crore
- EBITDA margins came in strong at 15.2% in Q4FY23 (above our estimate of 14.4%) owing to price hikes taken earlier. Consequently, absolute EBITDA grew 20% to ₹ 127.4 crore on a YoY basis (above our estimate of ₹ 123.7 crore) with gross margins of 50.3% vs. 47.8% in Q4FY22
- PAT came in at ₹ 170.1 crore (above our estimate of ₹ 84.1), grew 132.8% YoY aided exceptional income

Elgi Equipme - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	23.5	23.5	38.7
Social	18.4	20.5	28.8
Governance	78.6	78.6	78.6
Overall ESG Score	40.2	40.9	48.7

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Q4FY23 Earnings Conference Call highlights

- Elgi's equipment standalone revenue (domestic & direct exports compressor) remain flat at ₹ 456.1 crore (~55% of consolidated topline). Australia and southeast Asia performed better than the previous year in FY23 while the European Union and the US markets had done well also. India witnessed muted growth. Sales in India during Q4FY23 saw about 9% growth compared to the same period last year, if the orders for oxygen plants that were significant during the fourth quarter of Q4FY22 were excluded. On the revenue mix, India business contributed about 40% revenue while rest of the world contributed 60%
- In FY23, Elgi Equipment grew 20% YoY as volume contributes to about 5-6%, exchange rate ~4-5% and prices contributed another 7-8%. All sectors are showing traction in terms of orders and enquiries including spinning sector as things are improving there as well
- In FY23, Elgi Equipment took a one time fixed cost of ~₹ 23 crore on account of standardisation of ERP systems in north America and large part of it came in Q4FY23. The company is guiding for some transitional impact in Q1FY24 as well. Roughly 7-8% of the US topline may get impacted by this
- After market segment in India continues to do well. It is ~26-27% of the company's revenue. The company sees this as a good business opportunity
- Net debt level as on Q4FY23 was at ₹ 60 crore. The company will start showing good numbers as far as Europe is concerned. The management expects European losses to get over by FY24 end. The same should start showing profitability by FY25 onwards
- During the quarter, Patton's Inc, US, a subsidiary of Elgi Compressors US Inc. recognised a net gain of ₹ 77.45 crore (net of tax) (\$13.08 million) upon completion of sale of land and building held in Charlotte, North Carolina, US
- Outlook:** Elgi Equipment is expecting high double digit growth for FY24 as well with 15%+ sustainable margins as they are taking major initiatives for cost control

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	835.7	862.0	727.6	14.9	772.4	8.2	
Other Income	22.9	14.0	15.0	52.9	17.9	27.7	
Total Revenue	858.6	876.0	742.6	15.6	790.4	8.6	
Raw material cost	414.6	435.3	379.2	17.2	391.2	13.0	
Employee Expenses	149.6	163.0	123.0	21.6	143.6	4.2	
Total Other expenses	144.1	140.0	119.2	20.9	123.0	17.2	
Operating Profit (EBITDA)	127.4	123.7	106.2	20.0	114.6	11.1	
EBITDA Margins	15.2	14.4	14.6	65 bps	14.8	40 bps	Sustainable strong margins
Interest	5.4	4.0	2.4	125.5	6.4	-16.1	
Depreciation	19.5	20.0	19.9	-2.2	19.7	-1.2	
Total Tax	60.5	29.6	26.6	127.5	25.1	140.9	
PAT	170.1	84.1	73.1	132.8	80.1	112.5	

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue (Segment-wise)	835.7	862.0	727.6	14.9	772.4	8.2
Air Compressors	773.4	610.0	667.6	15.8	710.8	8.8
% of Sales	92%	92%	92%		92%	
Automotive Equipments	63.2	52.0	60.6	4.4	62.2	1.6
% of Sales	8%	8%	8%		8%	
EBT Margin						
Air Compressors	57.3	75.0	39.5	45.2	71.6	-19.9
EBT Margin	7.4%	12.3%	5.9%		10.1%	
% 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	10.5%	9.0%	10.6%		7.7%	
% of EBT	10.3	5.9	14.0		6.3	

Source: Company, ICICI Direct Research

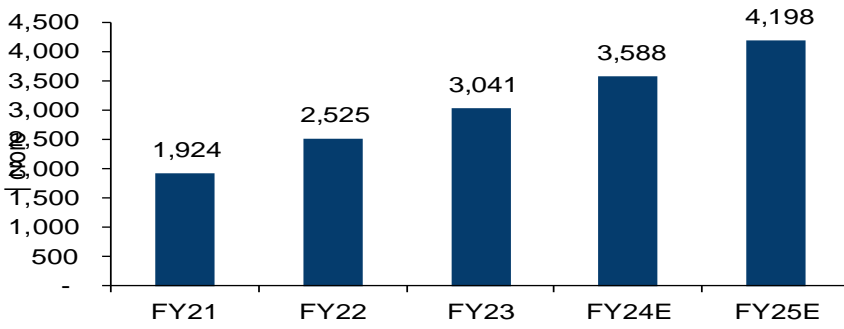
Exhibit 2: Change in estimates

₹crore	FY23		FY24E		FY25E		%
	Old	New	Old	New	Old	New	
Revenue	3,040.7	3,577.2	3,588.0		4,113.8	4,198.0	2.0
EBITDA	458.2	533.0	559.7		612.9	654.9	6.9
EBITDA margin (%)	15.1	14.9	15.6	70 bps	14.9	15.6	70 bps
PAT	290.8	324.3	336.5		376.1	397.9	5.8
EPS (₹)	9.2	10.2	10.6		11.9	12.6	5.5

Source: Company, ICICI Direct Research

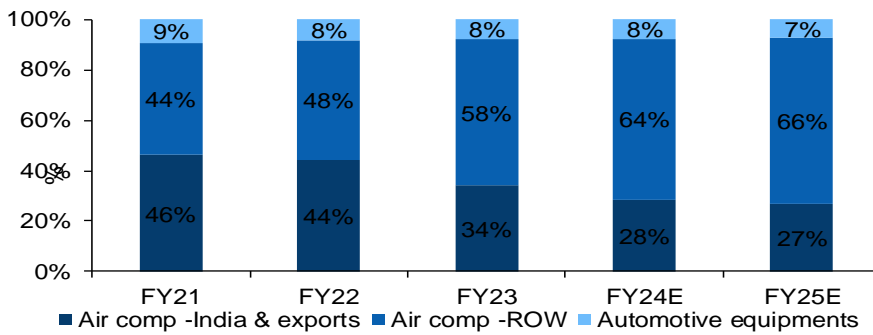
Financial story in charts

Exhibit 3: Revenue trend



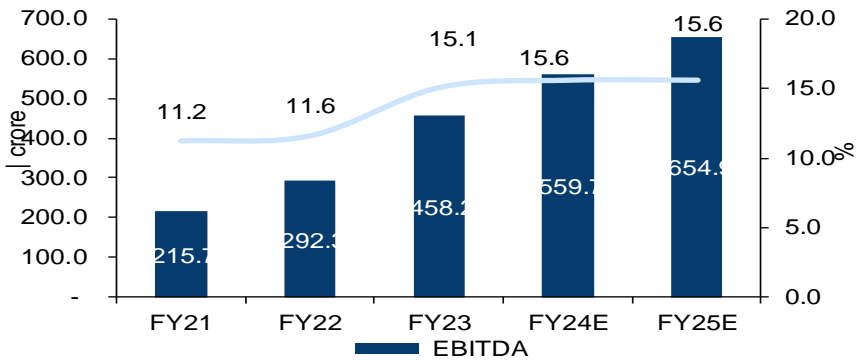
Source: Company, ICICI Direct Research

Exhibit 4: Revenue segmentation



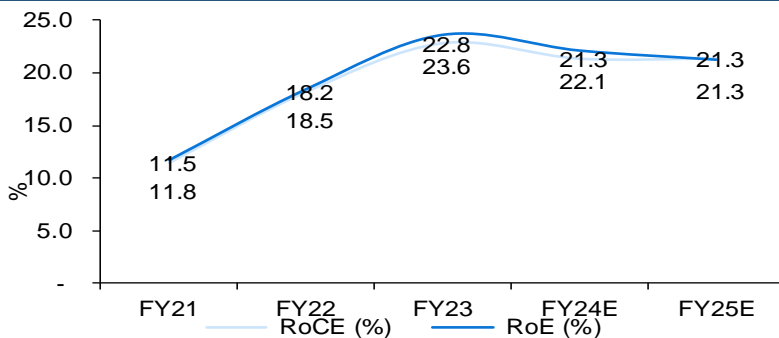
Source: Company, ICICI Direct Research

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	FY23	FY24E	FY25E
Net Sales	2,524.7	3,040.7	3,588.0	4,198.0
Other Operating Income	-	-	-	-
Total Operating Income	2,524.7	3,040.7	3,588.0	4,198.0
% Growth	84.3	20.4	18.0	17.0
Other Income	55.0	67.2	24.5	24.5
Total Revenue	2,579.7	3,107.9	3,612.5	4,222.5
Growth (%)	86.6	20.5	16.2	16.9
Total Raw Material Cos	1,357.0	1,533.4	1,894.5	2,216.5
Employee Expenses	483.9	577.7	645.8	755.6
Other expenses	391.4	471.4	488.0	570.9
Total Operating Expens	2,232.4	2,582.5	3,028.3	3,543.1
EBITDA	292.3	458.2	559.7	654.9
Growth (%)	110.1	56.7	22.2	17.0
Interest	11.1	19.8	11.8	11.8
PBDT	336.2	505.6	572.4	667.6
Depreciation	74.5	77.7	114.8	125.9
PBT before Exceptiona	261.7	427.9	457.6	541.6
Total Tax	84.6	139.6	123.5	146.2
PAT before MI	177.1	288.4	334.0	395.4
Minority Interest	-	-	-	-
PAT	178.4	290.8	336.5	397.9
Growth (%)	141.2	63.0	15.7	18.2
EPS*	5.6	9.2	10.6	12.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹Crоре)	FY22	FY23	FY24E	FY25E
Equity Capital	31.7	31.7	31.7	31.7
Reserve and Surplus	934.7	1,200.1	1,489.1	1,839.4
Total Shareholders funds	966.4	1,231.8	1,520.8	1,871.1
Minority Interest	-	-	-	-
Other Non Current Liabili	48.4	48.0	48.0	48.0
Total Debt	371.5	508.7	394.1	394.1
Total Liabilities	1,406.4	1,828.2	2,002.6	2,352.9
Gross Block	929.9	1,044.1	1,119.1	1,194.1
Acc: Depreciation	355.9	433.7	548.5	674.4
Net Block	574.0	610.5	570.7	519.7
Capital WIP	6.8	2.8	2.8	2.8
Total Fixed Assets	580.8	613.3	573.5	522.5
Non Current Assets	63.0	51.1	51.1	51.1
Inventory	483.1	602.4	639.0	747.6
Debtors	471.9	550.7	737.3	862.6
Loans and Advances	2.9	4.5	10.8	12.6
Other Current Assets	74.2	95.9	165.0	193.1
Cash	213.3	433.6	530.0	788.9
Total Current Assets	1,245.3	1,687.1	2,082.0	2,604.8
Current Liabilities	318.7	313.8	442.4	517.6
Provisions	15.9	31.4	21.2	24.8
Net Current Assets	751.8	1,153.1	1,367.3	1,768.5
Total Assets	1,406.4	1,828.2	2,002.6	2,352.9

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(₹Crоре)	FY22	FY23	FY24E	FY25E
Profit after Tax	178.4	290.8	336.5	397.9
Depreciation	74.5	77.7	114.8	125.9
Interest	11.1	19.8	11.8	11.8
Cash Flow before WC chang	264.0	388.3	463.2	535.6
Changes in inventory	(140.4)	(119.3)	(36.6)	(108.6)
Changes in debtors	(72.2)	(78.8)	(186.6)	(125.3)
Changes in loans & Advance	3.1	(1.6)	(6.2)	(1.8)
Changes in other current ass	26.2	(21.8)	(69.1)	(28.1)
Net Increase in Current Asse	(183.1)	(221.5)	(298.5)	(263.8)
Changes in creditors	29.7	(4.8)	128.5	75.2
Changes in provisions	2.7	15.5	(10.2)	3.6
Net Increase in Current Liabil	33.4	40.6	180.7	121.5
CF from operations	114.2	207.4	345.4	393.3
Changes in deferred tax asse	(7.5)	12.6	-	-
(Purchase)/Sale of Fixed Ass	(63.9)	(110.2)	(75.0)	(75.0)
CF from Investing	(71.7)	(79.1)	(75.0)	(75.0)
Dividend and Dividend Tax	(25.4)	(25.4)	(47.5)	(47.5)
CF from Financing	(120.0)	92.0	(174.0)	(59.4)
Net Cash flow	(77.4)	220.3	96.4	258.9
Opening Cash/Cash Equivale	290.8	213.3	433.6	530.0
Closing Cash/Cash Equivale	213.3	433.6	530.0	788.9

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Per Share Data				
EPS	5.6	9.2	10.6	12.6
BVS	30.5	38.9	48.0	59.0
Dividend per share	0.8	0.8	1.5	1.5
Dividend payout ratio	14.2	8.7	14.1	11.9
Operating Ratios				
EBITDA Margin	11.6	15.1	15.6	15.6
PAT Margin	7.1	9.6	9.4	9.5
Inventory days	69.8	72.3	65.0	65.0
Debtor days	68.2	66.1	75.0	75.0
Creditor days	46.1	37.7	45.0	45.0
Return Ratios				
RoE	18.5	23.6	22.1	21.3
RoCE	18.2	22.8	21.3	21.3
RoIC	17.0	24.9	26.6	29.3
Valuation Ratios				
EV / EBITDA	51.6	32.7	26.4	22.2
P/E	83.7	51.3	44.4	37.5
EV / Net Sales	6.0	4.9	4.1	3.5
Sales / Equity	2.6	2.5	2.4	2.2
Market Cap / Sales	5.9	4.9	4.2	3.6
Price to Book Value	15.4	12.1	9.8	8.0
Turnover Ratios				
Asset turnover	1.7	1.5	1.6	1.6
Debtors Turnover Ratio	5.8	5.9	5.6	5.2
Creditors Turnover Ratio	8.3	9.6	9.5	8.7
Solvency Ratios				
Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	3.1	3.6	3.3	3.3
Quick Ratio	1.6	1.9	2.0	2.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

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