

August 5, 2021

## Healthy growth, margins impacted amid challenges...

• **About the stock:** Elgi Equipments (Elgi) manufactures a wide range of air compressors (~90% of revenue) and automotive equipment (~10%).

- 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 ~40% in FY21)

**Q1FY22 Results:** Elgi reported decent Q1FY22 results amid challenges.

- Consolidated revenues came in at ₹ 489.4 crore, up 71% YoY on a low base
- EBITDA margins came in at 6.6% in Q1FY22 (below our estimates of 8.2%) primarily due higher commodity prices and supply chain disruptions
- Consequently, PAT at ₹ 12.4 crore (vs. net loss of ₹ 8.7 crore in Q1FY21)

**What should investors do?** Elgi's share price has grown by ~2.2x over the past five years (from ~₹ 65 in March 2016 to ~₹ 205 levels in March 2021).

- Considering strong growth outlook, better margins, we maintain BUY rating

**Target Price and Valuation:** We value Elgi at ₹ 260 i.e. 42x P/E on FY23E EPS

### Key triggers for future price performance:

- Going forward, accelerated growth in International markets, new products like disrupted AB series compressors, traction in India business drive long term incremental growth
- We expect revenue, EBITDA to grow at CAGR of 18.6%, 28.7% respectively in FY21-FY23E owing to various cost control initiatives improving margins
- Net debt free b/s, double-digit return ratios & strong cash generation

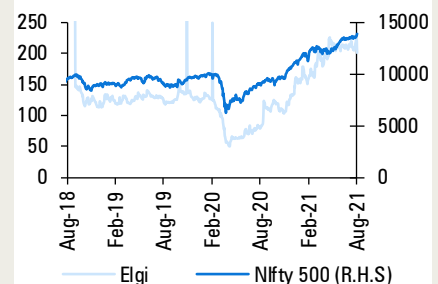
**Alternate Stock Idea:** We also like Grindwell Norton in our coverage.

- High margin value added products and solutions oriented approach to drive margin expansion (from ~16.7% in FY20 to 20.6% in FY23E)
- BUY with target price of ₹ 1510



Particulars	
Particular	Amount
Market Capitalization	₹ 6433 Crore
Total Debt (FY21)	₹ 370 Crore
Cash & Inv. (FY21)	₹ 262 Crore
EV (FY21)	₹ 6541 Crore
52 week H/L (₹)	244 / 79
Equity capital	₹ 31.7 Crore
Face value	₹ 1
Shareholding pattern	
(in %)	Sep-20 Dec-20 Mar-21 Jun-21
Promoter	31.9 31.9 31.9 31.9
FII	21.9 22.1 23.0 23.0
DII	10.3 10.2 9.5 9.2
Others	35.9 35.8 35.6 35.9

### 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 Financial Summary

(₹ crore)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenue	1,863.5	1,829.4	1,924.1	6.7%	2,231.9	2,680.5	18.0%
EBITDA	191.8	133.9	215.7	11.5%	239.9	340.4	25.6%
EBITDA Margin (%)	10.3	7.3	11.2		10.8	12.7	
Net Profit	103.1	42.6	102.5	13.7%	124.2	195.1	38.0%
EPS (₹)	3.3	1.3	3.2		3.9	6.2	
P/E (x)	62.4	151.1	62.8		51.8	33.0	
EV/EBITDA (x)	34.0	50.3	30.3		27.2	18.9	
RoCE (%)	13.8	6.5	11.7		12.8	18.1	
RoE (%)	13.4	5.5	11.8		13.9	18.7	
Growth		11.81	5.2		16.0	20.1	

## Key takeaways of recent quarter....

### Q1FY22 Results: Strong topline, margins impacted amid pandemic...

- Consolidated revenue grew 71.1% YoY to ₹ 489.4 crore vs. I-direct estimate of ₹ 378.5 crore. Standalone revenue (domestic & direct exports compressor) grew robust by 152.7% YoY to ₹ 301.4 crore (~62% of consolidated topline) amid low base led by better demand revival in domestic market and robust exports despite challenges while the international compressor business grew 9.6% to ₹ 161.5 crore, YoY (contributing ~33% of Elgi's consolidated topline), the automotive segment revenue grew 37.3% to ₹ 26.8 crore, YoY (~5.5% of firm's topline)
- EBITDA margins came in at 6.6% in Q1FY22 (below our estimates of 8.2%) primarily due higher commodity prices, input costs and supply chain disruptions despite better revenue booking amid pandemic. Consequently, absolute EBITDA grew 270% to ₹ 32.1 crore on a YoY basis (vs. our estimate of ₹ 31.1 crore) on a very low base
- Elgi's standalone air compressor (domestic & direct exports compressor) grew 152.7% YoY to ₹ 301.4 crore (~62% of consolidated topline). Pure domestic air compressor sales estimated to have grown at more than 60.7% YoY (contributing ~50% to overall air compressor sale). Elgi is on track in its strategy to optimise employee cost and raw material costs. Its disrupted AB series oil free compressor is gaining good traction in India and abroad as the economies gather pace worldwide. After-market (~20-25% to India topline) was impacted in Q1FY22 due to pandemic while continues to see strong traction across geographies. As on Q1FY22, consolidated debt has reduced marginally while working capital remains stable, cash position remains strong
- In Q1FY22, air compressor international sales (including exports from India) is estimated to have contributed ~50% to air compressor sales growing at 88.7% YoY amid low base. It continues to perform well in key international markets led by US, Europe while Australia, South East Asia and Gulf were impacted due to pandemic and expected to rebound gradually. Margins are expected to further improve due to ramp-up in international business, cost optimisation strategies to lead incremental revenue, future growth and positive operating leverage. The company aims to optimise material cost by ~2% over 12-18 months. Also, Elgi is on track in its strategic investment initiatives in Europe
- Going ahead, further traction in international market, new products like oil free compressors (AB series) would aid growth while India business has started seeing good traction and would further aid topline. Also, its strategy on cost reduction and focus on operating cash business would help deal with working capital, debt reduction and liquidity situation

**Exhibit 1: Variance Analysis**

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	489.4	378.5	286.1	71.1	610.6	-19.8	Standalone revenue grew 152.7% YoY on low base while international business grew by 9.6% YoY
Other Income	11.9	5.8	5.7	107.2	5.8	105.8	
Total Revenue	501.3	384.3	291.9	71.8	616.4	-18.7	
Raw material cost	263.0	203.1	148.5	44.5	333.6	-27.1	
Employee Expenses	118.6	94.3	87.6	35.4	112.3	5.6	People cost is expected to normalise at current
Total Other expenses	75.6	50.0	41.3	83.1	85.5	-11.5	Measures to optimise operating costs, which is likely to normalise as percentage of sales
Operating Profit (EBITDA)	32.1	31.1	8.7	270.0	79.2	-59.4	
EBITDA Margins	6.6	8.2	3.0		13.0		Marins impacted by higher commodity cost and supply chain disruptions
Interest	2.9	3.2	3.7	-21.2	3.2	-8.1	
Depreciation	18.5	19.8	17.5	6.1	19.6	-5.7	
Total Tax	10.6	3.9	2.0	433.9	19.4	-45.3	
PAT	12.4	10.3	-8.7	-242.4	43.4	-71.3	

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
<b>Revenue (Segment-wise)</b>	489.4	378.5	286.1	71.1	610.6	-19.8	
Air Compressors	462.9	345.0	266.6	73.6	560.1	-17.4	Positive surprise with gradual traction in domestic business and decent incremental growth in international market
% of Sales	95%	91%	93%		92%		
Automotive Equipments	26.8	33.0	19.5	37.3	50.5	-46.9	Automotive space impacted by supply chain disruptions and pandemic lockdowns
% of Sales	5%	9%	7%		8%		
<b>EBT Margin</b>							
Air Compressors	24.3	21.0	-5.0	-590.8	56.2	-56.8	
EBT Margin	5.2%	6.1%	-1.9%		10.0%		
% of EBT	107.6	105.0	73.5		90.5		

Source: Company, ICICI Direct Research

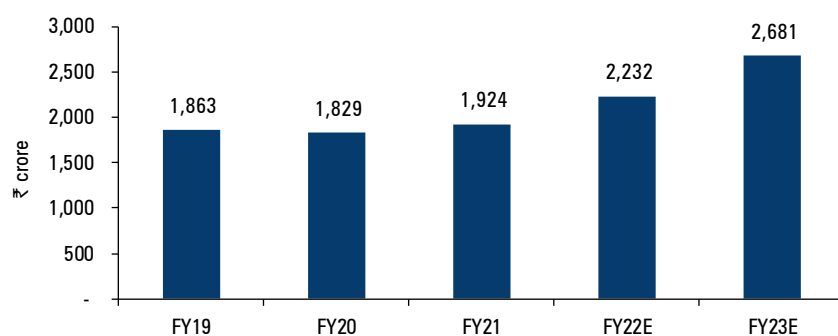
**Exhibit 2: Change in estimates**

	FY20	FY21	FY22E		%	FY23E		%
₹ crore			Old	New	Change	Old	New	Change
Revenue	1,829.4	1,924.1	2,241.5	2,231.9	-0.4	2,712.2	2,680.5	-1.2
EBITDA	133.9	215.7	255.5	239.9	-6.1	355.3	340.4	-4.2
EBITDA margin (%)	7.3	11.2	11.4	10.8	-65 bps	13.1	12.7	-40 bps
PAT	42.6	102.5	135.1	124.2	-8.1	204.6	195.1	-4.6
EPS (₹)	1.3	3.2	4.3	3.9	-8.8	6.5	6.2	-5.3

Source: Company, ICICI Direct Research

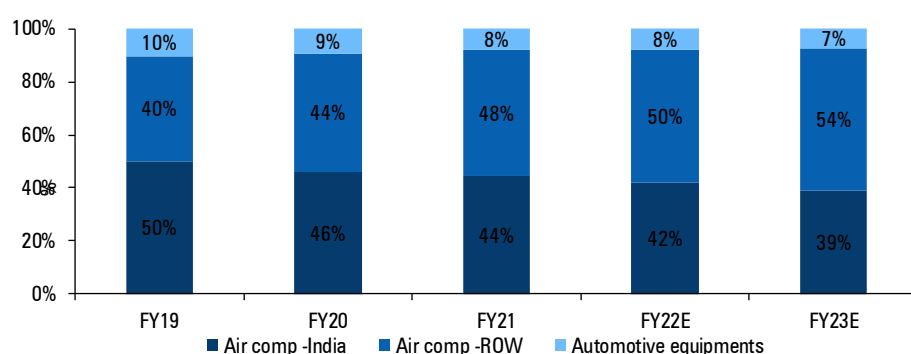
## Financial story in charts

**Exhibit 3: Revenue trend**



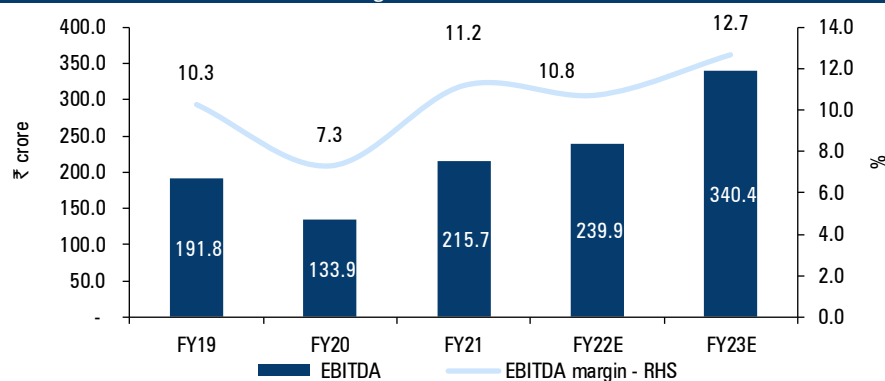
Source: Company, ICICI Direct Research

**Exhibit 4: Revenue segmentation**



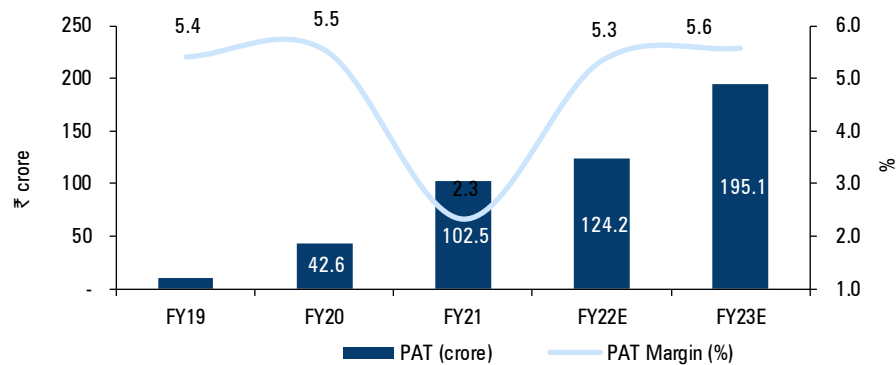
Source: Company, ICICI Direct Research

**Exhibit 5: EBITDA and EBITDA margin trend**



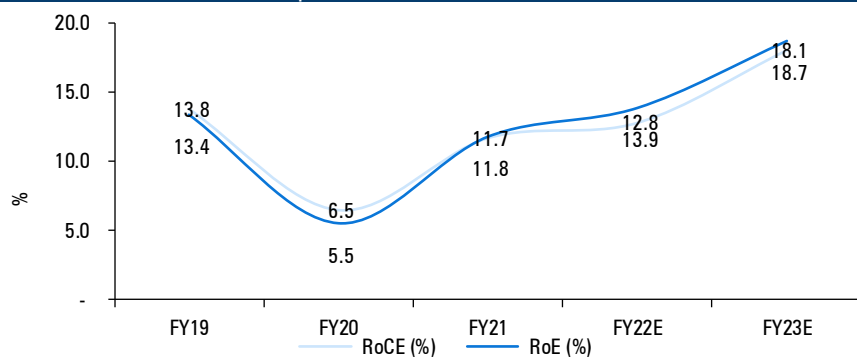
Source: Company, ICICI Direct Research

**Exhibit 6: PAT and PAT margin trend**



Source: Company, ICICI Direct Research

**Exhibit 7: Return ratios to improve**



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
<b>Net Sales</b>	<b>1,829.4</b>	<b>1,924.1</b>	<b>2,231.9</b>	<b>2,680.5</b>
Other Operating Income	-	-	-	-
Total Operating Income	1,829.4	1,924.1	2,231.9	2,680.5
% Growth	33.5	5.2	16.0	20.1
Other Income	15.2	23.5	21.5	24.5
Total Revenue	1,844.6	1,947.5	2,253.4	2,705.0
Growth (%)	33.5	5.6	15.7	20.0
Total Raw Material Costs	980.6	1,027.6	1,197.4	1,434.1
Employee Expenses	404.6	411.7	478.7	530.7
Other expenses	310.3	269.1	315.8	375.3
Total Operating Expense	1,695.5	1,708.4	1,992.0	2,340.1
<b>EBITDA</b>	<b>133.9</b>	<b>215.7</b>	<b>239.9</b>	<b>340.4</b>
Growth (%)	(3.8)	61.0	11.2	41.9
Interest	15.5	13.5	10.0	6.4
PBDT	133.6	225.7	251.4	358.6
Depreciation	65.2	74.3	79.7	85.8
PBT before Exceptional	68.3	151.4	171.7	272.8
Total Tax	27.0	50.3	48.9	79.1
PAT before MI	41.3	101.1	122.8	193.7
Minority Interest	-	-	-	-
<b>PAT</b>	<b>42.6</b>	<b>102.5</b>	<b>124.2</b>	<b>195.1</b>
Growth (%)	(42.4)	140.7	21.2	57.1
EPS*	1.3	3.2	3.9	6.2

Source: Company, ICICI Direct Research

Exhibit 9: Cash Flow Statement (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	42.6	102.5	124.2	195.1
Depreciation	65.2	74.3	79.7	85.8
Interest	15.5	13.5	10.0	6.4
Cash Flow before WC changes	123.4	190.3	213.9	287.2
Changes in inventory	(64.7)	0.7	(30.3)	(45.6)
Changes in debtors	20.2	(53.0)	(34.4)	(43.2)
Changes in loans & Advances	0.4	0.9	(0.7)	(1.3)
Changes in other current assets	(52.7)	13.6	(4.5)	(18.4)
Net Increase in Current Assets	(96.9)	(37.8)	(69.9)	(108.5)
Changes in creditors	(37.9)	80.1	35.2	35.8
Changes in provisions	(1.0)	1.1	1.6	2.4
Net Increase in Current Liabilities	(61.0)	117.0	57.4	47.3
<b>CF from operations</b>	<b>(34.5)</b>	<b>269.5</b>	<b>201.4</b>	<b>226.0</b>
Changes in deferred tax assets	8.8	(15.7)	-	-
(Purchase)/Sale of Fixed Assets	(159.9)	(54.3)	(75.0)	(95.0)
<b>CF from Investing</b>	<b>(126.5)</b>	<b>(58.0)</b>	<b>(75.0)</b>	<b>(95.0)</b>
Dividend and Dividend Tax	(55.5)	(25.4)	(41.2)	(47.5)
<b>CF from Financing</b>	<b>136.5</b>	<b>(35.2)</b>	<b>(144.0)</b>	<b>(83.9)</b>
Net Cash flow	(24.5)	176.3	(17.6)	47.0
Opening Cash/Cash Equivalent	110.2	85.7	262.0	244.4
Closing Cash/ Cash Equivalent	85.7	262.0	244.4	291.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Equity Capital	15.8	31.7	31.7	31.7
Reserve and Surplus	753.1	838.2	864.7	1,012.2
Total Shareholders funds	769.0	869.9	896.3	1,043.9
Minority Interest	-	-	-	-
Other Non Current Liabilities	37.1	53.1	53.1	53.1
Total Debt	389.7	369.6	333.4	303.4
<b>Total Liabilities</b>	<b>1,211.8</b>	<b>1,306.6</b>	<b>1,296.9</b>	<b>1,414.5</b>
Gross Block	814.8	868.7	942.8	1,042.8
Acc: Depreciation	207.1	281.4	361.1	446.9
Net Block	607.6	587.3	581.7	595.9
Capital WIP	3.7	4.1	5.0	-
Total Fixed Assets	611.4	591.4	586.7	595.9
Non Current Assets	41.9	55.9	55.9	55.9
Inventory	343.4	342.7	373.0	418.6
Debtors	346.8	399.7	434.2	477.4
Loans and Advances	6.9	6.0	6.7	8.0
Other Current Assets	114.0	100.4	104.9	123.3
Cash	85.7	262.0	244.4	291.4
Total Current Assets	896.7	1,110.8	1,163.1	1,318.7
Current Liabilities	208.8	288.9	324.1	359.8
Provisions	12.2	13.2	14.9	17.3
Net Current Assets	553.6	650.7	645.6	754.0
<b>Total Assets</b>	<b>1,211.8</b>	<b>1,306.6</b>	<b>1,297.0</b>	<b>1,414.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key Ratios				
	FY20	FY21	FY22E	FY23E
<b>Per Share Data</b>				
EPS	1.3	3.2	3.9	6.2
BVS	24.3	27.5	28.3	32.9
Dividend per share	1.8	0.8	1.3	1.5
Dividend payout ratio	130.3	24.8	33.2	24.4
<b>Operating Ratios</b>				
EBITDA Margin	7.3	11.2	10.8	12.7
PAT Margin	2.3	5.3	5.6	7.3
Inventory days	68.5	65.0	61.0	57.0
Debtor days	69.2	75.8	71.0	65.0
Creditor days	41.7	54.8	53.0	49.0
<b>Return Ratios</b>				
RoE	5.5	11.8	13.9	18.7
RoCE	6.5	11.7	12.8	18.1
RoIC	5.7	12.4	13.7	20.3
<b>Valuation Ratios</b>				
EV / EBITDA	50.3	30.3	27.2	18.9
P/E	151.1	62.8	51.8	33.0
EV / Net Sales	3.7	3.4	2.9	2.4
Sales / Equity	2.4	2.2	2.5	2.6
Market Cap / Sales	3.5	3.3	2.9	2.4
Price to Book Value	8.4	7.4	7.2	6.2
<b>Turnover Ratios</b>				
Asset turnover	1.4	1.4	1.6	1.7
Debtors Turnover Ratio	5.1	5.2	5.4	5.9
Creditors Turnover Ratio	8.0	7.7	7.3	7.8
<b>Solvency Ratios</b>				
Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	3.7	2.8	2.7	2.7
Quick Ratio	2.1	1.7	1.6	1.6

Source: Company, ICICI Direct Research

**Exhibit 12: ICICI Direct coverage universe (Capital Goods)**

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
L&T (LARTOU)	1623	1,870	Buy	227739	81.9	46.7	52.9	19.8	34.8	30.7	7.4	8.0	8.8	18.8	10.2	11.0
AIA Engineering (AIAENG)	1980	2,275	Buy	18675	60.0	58.7	71.0	33.0	33.7	27.9	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1386	1,685	Buy	16515	17.3	26.8	37.0	80.0	51.8	37.4	9.8	12.5	15.9	7.6	9.8	12.4
Kalpataru Power(KALPOW)	475	550	Buy	7349	41.3	33.9	42.0	11.5	14.0	11.3	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	416	485	Buy	10695	21.5	23.3	32.2	19.4	17.8	12.9	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	158	210	Buy	3653	0.4	4.7	6.5	352.6	33.3	24.1	6.5	16.5	21.9	3.3	12.0	16.0
Elgi Equipment (ELGEQU)	203	260	Buy	6433	3.2	3.9	6.2	62.8	51.8	33.0	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	176	205	Buy	42884	8.5	9.5	10.8	20.8	18.5	16.3	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCSHI)	375	500	Buy	5089	46.4	44.0	55.6	8.1	8.5	6.7	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2815	3,300	Buy	14100	60.2	72.0	94.0	46.8	39.1	29.9	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1490	1,235	Hold	11729	19.0	31.2	35.3	78.3	47.8	42.2	15.4	19.4	21.9	11.9	14.8	16.8
NRB Bearing (NRBBEA)	138	175	Buy	1466	5.6	8.0	9.8	24.6	17.3	14.1	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	245	300	Buy	2894	7.1	9.4	13.7	34.5	26.1	17.9	26.9	25.8	30.7	15.3	17.1	20.3

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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