

CMP: ₹ 516

Target: ₹ 620 (20%)

Target Period: 6-12 months

May 29, 2025

BUY

## Steady outlook, albeit global uncertainties..

**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)

**Q4FY25 performance:** Revenues for Q4FY25 grew 14.6% to ₹992 crore, EBITDA grew 19.7% YoY and 25.4% QoQ to ₹150 crore EBITDA margins at 15.1% up 65 bps YoY. Consequently, PAT for the quarter came in at ₹102 crore up 33% YoY and 27% sequentially. On a segmental basis, Air compressors grew 13% YoY to ₹899 crore and automotive grew 37% to ₹94 crore. PAT margin expanded 142 bps YoY to 10.1%. For FY25, Revenues and PAT grew 9.1% and 12% to ₹3510 and ₹350 crore respectively.

### Investment Rationale:

- **Volumes to grow in mid double digits over FY26E-27E:** FY25 saw muted volume growth on account of ERP implementation issues in US business and demand concerns in the European markets. Going ahead, with ERP issues behind in US and strong prospects in India (mining, construction, water well, after market, industrials), Middle east and recovery in Australia and S.E. Asia, the revenues are expected to grow at a CAGR of 10% over FY25-FY27E. The growth will be purely driven by volumes as most of the pricing has been already in place. In Europe, the company saw a strong Q4 and expects to maintain sales but at the same time is cautious on US tariff impact awaited. At consolidated level, after sales (high margin segment) comprises 14% of overall sales while at standalone level the same is at 25-28%.
- **Capex to come on stream by FY26E, will further add to growth prospects:** The company is undertaking capacity addition in the screw compressor segment as the utilisation are at peak levels and the segments like mining, construction and industrials witnessing strong demand. This will require capex of ₹ 125 crore coupled with this Elgi is also expanding its Global support centres (spares and parts) which will require another ₹ 125 crore. This expansion is slated to get commissioned by FY26E.

### Rating and Target Price

- With increasing traction in the international markets, strong domestic demand and introduction of newer products will drive strong profitability growth. We estimate revenue, EBITDA and PAT to grow at ~10.5%, ~17.8% and ~17.5% CAGR respectively over FY25-27E. With recovery in margins and ROCE floating at 22-23% till FY27E and strong tailwinds across entire industrial space, the company will command premium valuations. We value it at 40x FY27E to arrive at a fair value of ₹620 per share

### Key Financial Summary

Particulars (Rs. in crore)	FY23	FY24	FY25	3 Year CAGR (FY22-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Revenue	3,040.7	3,217.8	3,510.4	11.6%	3,826.3	4,285.5	10.5%
EBITDA	432.8	486.0	524.9	21.5%	612.2	728.5	17.8%
EBITDA Margin (%)	14.2	15.1	15.0		16.0	17.0	
Net Profit	267.9	317.1	355.3	25.8%	412.7	490.8	17.5%
EPS (Rs.)	8.5	10.0	11.2		13.0	15.5	
P/E (x)	58.8	49.7	44.3		38.2	32.1	
EV/EBITDA (x)	36.6	32.1	29.3		24.6	20.1	
RoCE (%)	21.7	22.4	22.2		22.1	22.8	
RoE (%)	22.2	21.4	19.9		19.2	23.3	
Growth	5.8	9.1			9.0	12.0	

Source: Company, ICICI Direct Research



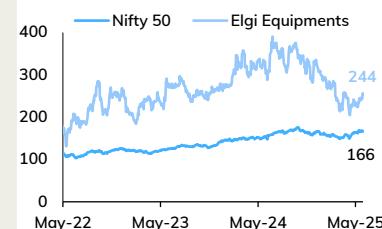
### Particulars

Particular	Rs. in crore
Market Capitalization	15,800.0
Total Debt (FY25)	55.5
Cash & Inv. (FY25)	87.5
EV (FY25)	15,768.0
52 week H/L (Rs./share)	799/390
Equity capital	31.7
Face value (Rs./share)	1.0

### Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	31.2	31.2	31.2	31.2
FII	29.5	29.4	29.4	29.1
DII	5.0	5.0	5.1	5.0
Others	34.3	34.4	34.3	34.7

### Price Chart



### Key risks

- (i) Slowdown in demand (ii) Delay in breakeven and growth in international geographies

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## Key result and concall highlights

- Elgi reported a good Q4FY25, with 15% revenue growth to ₹992 crore, this was contributed by strong growth momentum in India and Middle East, a stronger Q4 in Europe. Australia and North America is coming back however, South East Asia remained subdued.
- EBITDA for Q4FY25 came in at ₹150 crore up 20% YoY and 25% QoQ, EBITDA margins expanded 65 bps YoY, EBITDA was offset by a significant increase in other expenses (24% YoY), most of which is one time in nature and a marginal increase of 1% YoY in Employee expenses.
- As a result, PAT for Q4FY25 came in at ₹102 crore, up 33% YoY and 22% sequentially. The company carried out process to improve inventory and receivables which resulted in a one-time cost of ₹8 crore.
- For FY25, revenues and PAT grew 9% and 12% to ₹3510 and ₹350 crore respectively.
- The company is awaiting trade agreement to be signed between US and India for more clarity on the US business, the impact is expected to be significant on the globally economy. As a proactive measure, it is in communication with the customer to prepare to take price hikes if substantially high tariff are announced.
- In the meanwhile, the company plans to absorb tariff hits from US through various cost reduction measures it has been undertaking over the past 2-3 years one of which is Elgi's motor plant in which Elgi manufactures 85-90% of its motors.
- The company has also developed machines to match it's competitors performance and price without a compromise on quality. The company is confident to defend its market share in this lower voltage market segment.
- Elgi is open to acquisition opportunities for specific adjacencies as part of its growth plan.
- The company has re-iterated its long term (5 years) target to achieve US\$ 450 million (~₹3800 crore) revenue clocking in a 10% growth YoY next year (FY26E), 16% EBITDA margins and 30% ROCE.

## Financial Summary

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Net Sales</b>	<b>3,217.8</b>	<b>3,510.4</b>	<b>3,826.3</b>	<b>4,285.5</b>
Other Operating Income	-	-	-	-
Total Operating Income	3,217.8	3,510.4	3,826.3	4,285.5
% Growth	134.9	9.1	9.0	12.0
Other Income	55.0	57.7	70.0	70.0
Total Revenue	3,272.8	3,568.1	3,896.3	4,355.5
Growth (%)	136.8	9.0	9.2	11.8
Total Raw Material Costs	1,568.9	1,717.4	1,886.4	2,112.7
Employee Expenses	654.9	682.8	715.5	801.4
Other expenses	507.9	585.3	612.2	642.8
Total Operating Expense	2,731.8	2,985.5	3,214.1	3,557.0
<b>EBITDA</b>	<b>486.0</b>	<b>524.9</b>	<b>612.2</b>	<b>728.5</b>
Interest	29.3	30.4	9.2	4.7
PBDT	511.7	552.1	673.0	793.9
Depreciation	76.6	76.0	114.8	128.6
PBT before Exceptional	435.0	476.1	558.2	665.3
Total Tax	128.3	131.5	150.7	179.6
PAT before MI	311.9	350.1	407.5	485.7
Minority Interest	-	-	-	-
<b>PAT</b>	<b>317.1</b>	<b>355.3</b>	<b>412.7</b>	<b>490.8</b>
Growth (%)	328.7	12.0	16.2	18.9
EPS*	10.0	11.2	13.0	15.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
(Year-end March)	FY24	FY25	FY26E	FY27E
Profit after Tax	317.1	355.3	412.7	490.8
Depreciation	76.6	76.0	114.8	128.6
Interest	29.3	30.4	9.2	4.7
Cash Flow before WC changes	423.1	461.7	536.7	624.1
Changes in inventory	29.3	(52.1)	(56.3)	(81.8)
Changes in debtors	(110.5)	(60.1)	(64.9)	(94.3)
Changes in loans & Advances	(5.1)	(0.9)	(0.9)	(1.4)
Changes in other current assets	(52.1)	(13.5)	(14.5)	(21.1)
Net Increase in Current Assets	(138.4)	(126.6)	(136.7)	(198.6)
Changes in creditors	82.9	36.1	39.0	56.6
Changes in provisions	4.3	3.2	3.5	5.1
Net Increase in Current Liabilities	91.4	56.9	61.4	89.3
<b>CF from operations</b>	<b>376.1</b>	<b>392.0</b>	<b>461.4</b>	<b>514.7</b>
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(75.0)	(75.0)	(75.0)	(75.0)
<b>CF from Investing</b>	<b>(75.0)</b>	<b>(75.0)</b>	<b>(75.0)</b>	<b>(75.0)</b>
Dividend and Dividend Tax	(47.5)	(47.5)	(47.5)	(47.5)
<b>CF from Financing</b>	<b>(191.5)</b>	<b>(168.0)</b>	<b>(156.7)</b>	<b>(152.2)</b>
Net Cash flow	109.7	149.1	229.7	287.5
Opening Cash/Cash Equivalent	410.7	520.3	669.4	899.1
Closing Cash/ Cash Equivalent	520.3	669.4	899.1	1,186.6

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Equity Capital</b>	<b>31.7</b>	<b>31.7</b>	<b>31.7</b>	<b>31.7</b>
Reserve and Surplus	1,446.7	1,754.4	2,119.6	2,072.1
Total Shareholders funds	1,478.4	1,786.1	2,151.3	2,103.8
Minority Interest	-	-	-	-
Other Non Current Liabilities	48.0	48.0	48.0	48.0
Total Debt	394.1	304.1	204.1	104.1
<b>Total Liabilities</b>	<b>1,960.2</b>	<b>2,177.9</b>	<b>2,443.1</b>	<b>2,295.5</b>
Gross Block	1,119.1	1,194.1	1,269.1	1,344.1
Acc: Depreciation	536.6	641.9	756.7	885.3
Net Block	582.5	552.2	512.4	458.8
Capital WIP	2.8	2.8	2.8	2.8
Non Current Assets	51.1	51.1	51.1	51.1
Inventory	573.0	625.1	681.4	763.2
Debtors	661.2	721.3	786.2	880.6
Loans and Advances	9.7	10.5	11.5	12.9
Other Current Assets	148.0	161.5	176.0	197.1
Cash	520.3	669.4	899.1	1,186.6
Total Current Assets	1,912.2	2,187.8	2,554.2	3,040.3
Current Liabilities	396.7	432.8	471.7	528.3
Provisions	35.7	39.0	42.5	47.6
Net Current Assets	1,286.7	1,505.5	1,810.4	2,207.3
<b>Total Assets</b>	<b>1,960.2</b>	<b>2,177.9</b>	<b>2,443.1</b>	<b>2,295.6</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
<b>Per Share Data</b>				
EPS	10.0	11.2	13.0	15.5
BVS	46.7	56.4	67.9	66.4
Dividend per share	1.5	1.5	1.5	1.5
Dividend payout ratio	15.0	13.4	11.5	9.7
<b>Operating Ratios</b>				
EBITDA Margin	15.1	15.0	16.0	17.0
PAT Margin	9.9	10.1	10.8	11.5
Inventory days	65.0	65.0	65.0	65.0
Debtor days	75.0	75.0	75.0	75.0
Creditor days	45.0	45.0	45.0	45.0
<b>Return Ratios</b>				
RoCE	22.4	22.2	22.1	22.8
RoIC	26.4	27.9	29.9	34.3
<b>Valuation Ratios</b>				
EV / EBITDA	32.1	29.3	24.6	20.1
P/E	49.7	44.3	38.2	32.1
EV / Net Sales	4.9	4.4	3.9	3.4
Sales / Equity	2.2	2.0	1.8	2.0
Market Cap / Sales	4.9	4.5	4.1	3.7
Price to Book Value	10.7	8.8	7.3	7.5
<b>Turnover Ratios</b>				
Asset turnover	1.6	1.5	1.5	1.5
Debtors Turnover Ratio	5.3	5.1	5.1	5.1
Creditors Turnover Ratio	9.1	8.5	8.5	8.6
<b>Solvency Ratios</b>				
Debt / Equity	0.3	0.2	0.1	0.0
Current Ratio	3.2	3.2	3.2	3.2
Quick Ratio	1.9	1.9	1.9	1.9

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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