

Weak domestic business performance continues...

Elgi Equipments (Elgi) continued to report a subdued Q4FY20 performance with consolidated revenue decline of 13.9%, YoY to ₹ 454.7 crore. On a segmental basis, the domestic compressor business (domestic + direct exports) de-grew 26.2% YoY to ₹ 249.3 crore amid the economic slowdown, while international business grew 20.8% to ₹ 168 crore YoY while automotive (ATS) segment de-grew 26.6% YoY to ₹ 37.5 crore. Overall, consolidated EBITDA fell 56% to ₹ 27 crore YoY. EBITDA margins fell 570 bps YoY to 5.9% in Q4FY20 primarily due to 12.4% increase in employee expenses likely due to upfront set-up costs incurred in setting up base in international business. Accordingly, PAT was at ₹ 1.1 crore, down 97% YoY. Profitability margins were impacted further by an increase in depreciation cost by 17.5% YoY, increase in interest cost and higher effective tax rate. Elgi faced a revenue loss of ~₹ 75 crore in Q4FY20 amid shutdowns.

Headwinds continue for India business amid challenges

Macroeconomic headwinds continued to impact Elgi's domestic air compressor sales growth in Q4FY20. The company adopted a strategy to curtail employee cost and reduce fixed cost by 15-20% in FY21E mainly in India business. However, the management expects some revival in capacity building in food & beverage, pharma to gain further traction with its disrupted AB series oil free compressor that is gaining good traction in India. After-market (~24% to India topline), is likely to start gaining traction from H2FY21E with opportunities in oil free compressors. Hence, debt has gone up by ₹ 152 crore in FY20 to ₹ 390 crore while working capital has also increased owing to delayed dispatches held in Q4FY20. The operational run rate has reached ~55% in June 2020.

Mixed international performance; upfront costs impact margin

In Q4FY20, international business grew 20.8% to ₹ 168 crore YoY. It performed well in key international markets led by Australia, US with moderate growth in Europe. South East Asia, Gulf grew less than expected. Strategic investment in Belgium impacted Q4FY20. Elgi has frozen its strategic initiatives to build organic model in entire Europe except Germany with revenue opportunity of ₹ 600 crore in three to five years due to business disruptions. Elgi earlier planned to incur ~₹ 160 crore by FY23 but decided to curtail costs by 25%. Margin pressure in short run may pay off through future growth, profitability in medium to long term in international business.

Valuation & Outlook

Going ahead, traction in international market, new products like oil free compressors (AB series) would aid growth while India continues to face challenges across verticals. However, its strategy on cost reduction, focus on cash business would help deal with stretched working capital, debt position and cash liquidity aid challenges. On the whole, we expect revenue, EBITDA growth of 0.5%, 18.1% CAGR, respectively, over FY20-22E. We revise our TP to ₹ 160 (26x FY22 EPS of ₹ 6.2) and maintain **HOLD** rating.

Key Financial Summary

(₹ crore)	FY19	FY20P	FY21E	FY22E	CAGR (FY20E-22E)
Revenue	1,863.5	1,829.4	1,390.3	1,849.1	0.5%
EBITDA	191.8	133.9	59.8	186.8	18.1%
EBITDA Margin (%)	10.3	7.3	4.3	10.1	
Net Profit	103.1	42.6	1.7	98.3	51.9%
EPS (₹)	6.5	2.7	0.1	6.2	
P/E (x)	22.3	53.9	1,369.0	23.4	
EV/EBITDA (x)	12.6	19.3	43.8	13.6	
RoCE (%)	13.8	6.7	1.5	11.5	
RoE (%)	13.4	5.5	0.2	11.9	
Growth	36.0	(1.8)	(24.0)	33.0	

Source: ICICI Direct Research, Company



Particulars

Particular	Amount
Market Capitalization	₹2298 Crore
Total Debt (FY 20)	₹390 Crore
Cash & Inv. (FY 20)	₹98 Crore
EV (FY 20)	₹2589 Crore
52 week H/L (₹)	309 / 102
Equity capital	₹15.8 Crore
Face value	₹1

Key Highlights

- Compressor business (domestic + direct exports) de-grew 26.2% YoY, international business grew 20.8% YoY while automotive segment de-grew 26.6% YoY
- There was sustained economic slowdown in India market with overhead and setup cost due to Europe expansion. Revise target price to ₹ 160 and maintain HOLD rating

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	454.7	442.2	528.0	-13.9	463.3	-1.9	Standalone down 26.2% YoY; International up ~20.8% YoY
Other Income	0.7	3.3	3.3	-78.1	7.7	-90.6	
Total Revenue	455.4	445.4	531.3	-14.3	471.0	-3.3	
Raw material cost	247.5	254.9	297.7	-14.8	246.3	-0.6	
Employee Expenses	102.1	82.7	90.8	12.4	105.2	-3.0	People cost in newer markets results in upfront costs
Total Other expenses	78.1	76.6	78.0	0.1	79.5	-1.8	
Operating Profit (EBITDA)	27.0	31.2	61.5	-56.0	32.3	-16.2	
EBITDA Margins	5.9	7.1	11.6		7.0		
Interest	4.1	3.7	1.9	110.9	3.9	5.7	
Depreciation	17.5	19.5	14.3	22.8	16.9	3.6	
Total Tax	5.0	3.2	12.6	-60.3	6.9	-27.3	
PAT	1.1	8.9	35.6	-97.1	12.9	-91.8	

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	
Revenue (Segment-wise)	454.7	442.0	528.0	-13.9	463.3	-1.9	
Air Compressors	417.2	397.8	476.9	-12.5	422.2	-1.2	Slowdown continues in domestic business
% of Sales	92%	90%	90%		91%		
Automotive Equipments	37.5	44.4	51.2	-26.6	41.3	-9.1	Automotive space to remain subdued
% of Sales	8%	10%	10%		9%		
EBT Margin							
Air Compressors	16.8	-	29.8	-43.6	13.8	21.7	
EBT Margin	4.0%	-	6.2%		3.3%		
% of EBT	87.8	-	92.3		79.9		
Automotive Equipments	2.3	-	2.5	-5.8	3.5	-32.9	
EBT Margin	6.2%	-	4.8%		8.4%		
% of EBT	12.2	-	7.7		20.1		

Source: Company, ICICI Direct Research

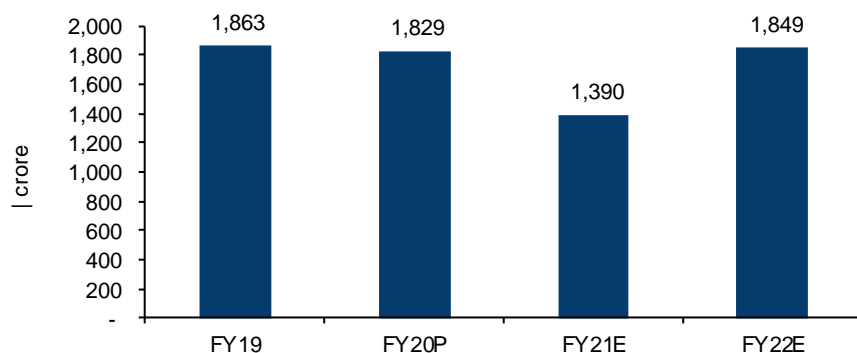
Exhibit 2: Change in estimates

	FY19	FY20P	FY21E			FY22E			
₹ crore			Old	New	Change	Old	New	Change	Comments
Revenue	1,863.5	1,829.4	1,217.3	1,390.3	14.2	1,704.2	1,849.1	8.5	revised revenue growth in-line with ramp-up activities
EBITDA	191.8	133.9	49.9	59.8	19.8	155.9	186.8	19.8	
EBITDA margin (%)	10.3	7.3	4.1	4.3		9.2	10.1		
PAT	103.1	42.6	-2.6	1.7	-164.6	71.9	98.3	36.7	
EPS (₹)	6.5	2.7	-0.2	0.1	-153.0	4.5	6.2	37.8	

Source: Company, ICICI Direct Research

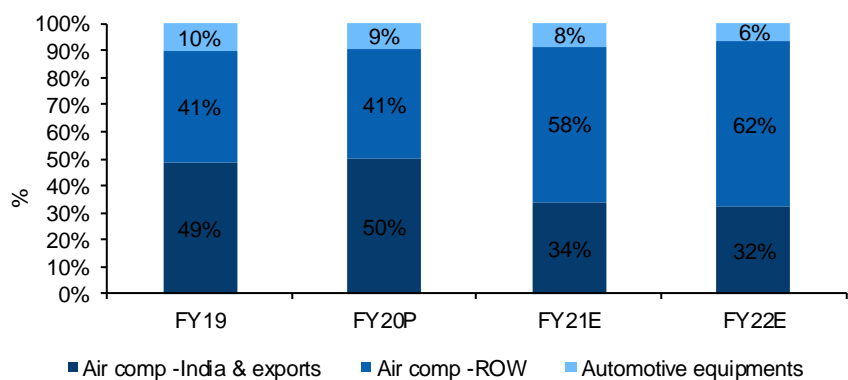
Financial Story in Charts

Exhibit 3: Revenue trend



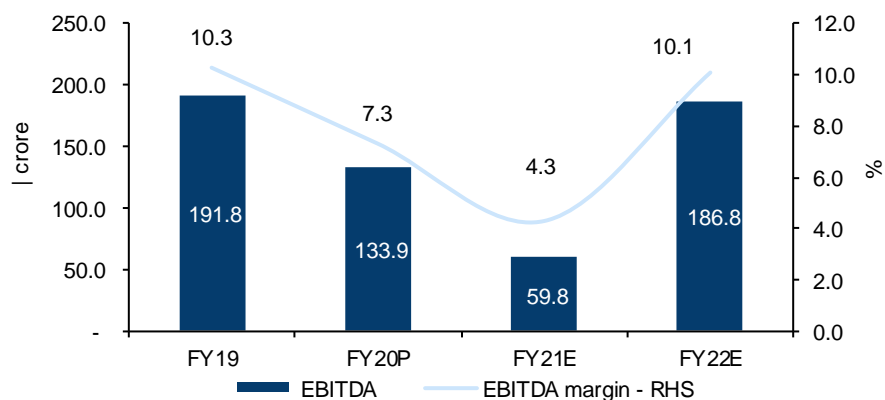
Source: Company, ICICI Direct Research

Exhibit 4: Revenue segmentation



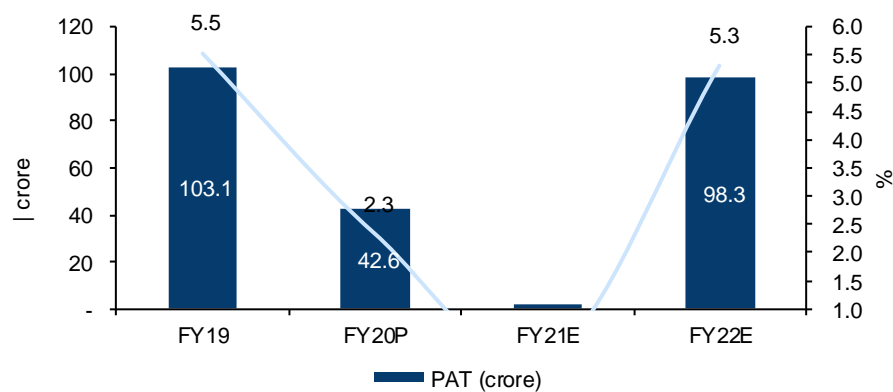
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



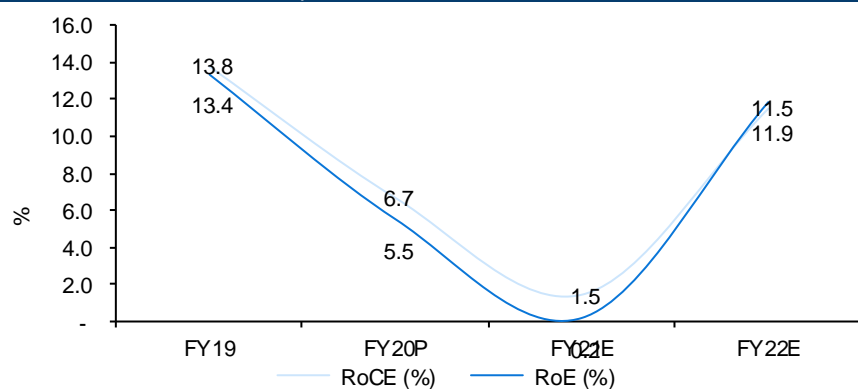
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend



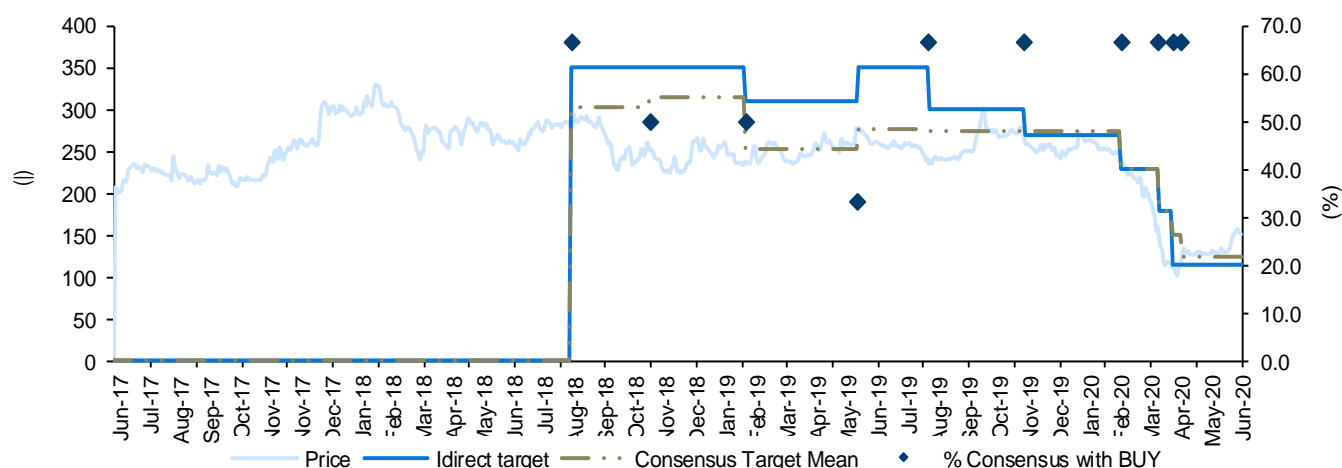
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios to improve



Source: Company, ICICI Direct Research

Exhibit 8: Recommendation history vs. consensus estimate



Source: Reuters, Company, ICICI Direct Research, I-direct coverage on Elgi Equipment was initiated on 17th August 2018

Exhibit 9: Top 10 shareholders

Rank	Investor Name	Filing Date	% O/S	osition (%)	Change
1	Dark Horse Portfolio	31-Mar-20	16.4	25.96m	0.00m
2	Sbi Funds Management	31-May-20	8.8	13.97m	(0.16)m
3	Pari Washington Co P	31-Mar-20	8.7	13.71m	0.00m
4	Varadaraj Jairam	31-Mar-20	8.7	13.71m	0.00m
5	Gagandeep Credit Cap	31-Mar-20	5.2	8.15m	0.00m
6	Elgi Ultra Industrie	31-Mar-20	3.8	6.08m	0.00m
7	First State Investme	30-Nov-19	3.8	5.97m	0.00m
8	Nalanda India Equity	31-Mar-20	2.8	4.44m	0.00m
9	Wasatch Advisors Inc	31-Mar-20	1.8	2.84m	0.05m
10	Shah Nemish Shantila	31-Mar-20	1.7	2.68m	0.00m

Source: Reuters, Company, ICICI Direct Research

Exhibit 10: Shareholding pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	31.9	31.9	31.9	31.9	31.9
FII	18.6	19.0	19.7	20.6	20.7
DII	10.1	10.4	10.1	9.6	10.3
Others	39.5	38.7	38.3	37.9	37.1

Source: Company, ICICI Direct Research

Exhibit 11: Profit and loss statement (₹ Crore)

(₹Crore)	FY19	FY20P	FY21E	FY22E
Net Sales	1,863.5	1,829.4	1,390.3	1,849.1
Other Operating Incom	-	-	-	-
Total Operating Incom	1,863.5	1,829.4	1,390.3	1,849.1
% Growth	36.0	(1.8)	(24.0)	33.0
Other Income	10.3	15.2	12.8	22.2
Total Revenue	1,873.8	1,844.6	1,403.1	1,871.4
Growth (%)	35.6	(1.6)	(23.9)	33.4
Total Raw Material Co	1,031.1	980.6	750.8	1,002.2
Employee Expenses	340.8	404.6	335.1	351.3
Other expenses	299.8	310.3	244.7	308.8
Total Operating Expen	1,671.7	1,695.5	1,330.6	1,662.4
EBITDA	191.8	133.9	59.8	186.8
Growth (%)	37.8	(30.2)	(55.4)	212.4
Interest	9.0	15.5	17.7	14.5
PBDT	193.1	133.6	54.8	194.5
Depreciation	51.7	65.2	54.2	61.0
PBT before Exception	141.3	68.3	0.6	133.5
Total Tax	40.4	27.0	0.2	36.4
PAT before MI	100.9	41.3	0.4	97.0
Minority Interest	-	-	-	-
PAT	103.1	42.6	1.7	98.3
Growth (%)	39.3	(58.7)	-	-
EPS	6.5	2.7	0.1	6.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash Flow Statement

(₹Crore)	FY19	FY20P	FY21E	FY22E
Profit after Tax	103.1	42.6	1.7	98.3
Depreciation	51.7	65.2	54.2	61.0
Interest	9.0	15.5	17.7	14.5
Cash Flow before WC cha	163.8	123.4	73.6	173.8
Changes in inventory	(5.0)	(64.7)	(22.3)	(9.2)
Changes in debtors	(23.5)	20.2	(22.7)	(20.6)
Changes in loans & Advan	(2.1)	4.5	(7.0)	(0.9)
Changes in other current	(4.0)	(69.3)	(0.0)	(6.2)
Net Increase in Current As	(34.6)	(109.4)	(52.0)	(36.9)
Changes in creditors	33.3	(37.9)	9.5	24.9
Changes in provisions	(4.7)	(1.0)	0.6	1.5
Net Increase in Current Lie	24.4	(16.0)	(0.9)	35.3
CF from operations	153.6	(2.0)	20.7	172.2
Changes in deferred tax a	(10.1)	(3.7)	-	-
(Purchase)/Sale of Fixed /	(115.2)	(109.9)	(15.0)	(50.0)
CF from Investing	(82.0)	(113.7)	(15.0)	(50.0)
Dividend and Dividend Tax	(20.6)	(22.8)	(15.8)	(25.4)
CF from Financing	(14.8)	91.6	(11.3)	(89.8)
Net Cash flow	56.8	(24.1)	(5.6)	32.4
Opening Cash/Cash Equiv	65.4	122.2	98.1	92.6
Closing Cash/ Cash Equiv	122.2	98.1	92.6	124.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet

(₹Crore)	FY19	FY20P	FY21E	FY22E
Equity Capital	15.8	15.8	15.8	15.8
Reserve and Surplus	755.5	753.1	738.9	811.8
Total Shareholders func	771.3	768.9	754.7	827.7
Minority Interest	-	-	-	-
Other Non Current Liabi	-	-	-	-
Total Debt	237.6	389.8	412.1	362.1
Total Liabilities	1,026.3	1,174.7	1,182.8	1,205.8
Gross Block	691.9	803.2	821.9	871.9
Acc: Depreciation	179.9	245.1	299.3	360.3
Net Block	512.0	558.1	522.6	511.6
Capital WIP	5.1	3.7	-	-
Total Fixed Assets	517.2	561.8	522.6	511.6
Non Current Assets	36.8	41.9	41.9	41.9
Inventory	278.7	343.4	365.7	374.9
Debtors	366.9	346.8	369.5	390.1
Loans and Advances	11.4	6.9	13.9	14.8
Other Current Assets	44.7	114.0	114.0	120.2
Cash	122.7	98.1	92.6	124.9
Total Current Assets	824.4	909.2	955.6	1,024.9
Current Liabilities	246.7	208.8	218.3	243.2
Provisions	13.1	12.2	12.7	14.2
Net Current Assets	465.2	566.1	613.4	647.4
Total Assets	1,026.8	1,174.7	1,183.3	1,206.2

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios

	FY19	FY20P	FY21E	FY22E
Per Share Data				
EPS	6.5	2.7	0.1	6.2
BVS	48.7	48.5	47.6	52.2
Dividend per share	1.3	1.4	1.0	1.6
Dividend payout ratio	20.0	53.6	944.1	25.8
Operating Ratios				
EBITDA Margin	10.3	7.3	4.3	10.1
PAT Margin	5.5	2.3	0.1	5.3
Inventory days	54.6	68.5	96.0	74.0
Debtor days	71.9	69.2	97.0	77.0
Creditor days	48.3	41.7	57.3	48.0
Return Ratios				
RoE	13.4	5.5	0.2	11.9
RoCE	13.8	6.7	1.5	11.5
RoIC	14.6	6.0	0.5	10.8
Valuation Ratios				
EV / EBITDA	12.6	19.3	43.8	13.6
P/E	22.3	53.9	1,369.0	23.4
EV / Net Sales	1.3	1.4	1.9	1.4
Sales / Equity	2.4	2.4	1.8	2.2
Market Cap / Sales	1.2	1.3	1.7	1.2
Price to Book Value	3.0	3.0	3.0	2.8
Turnover Ratios				
Asset turnover	1.7	1.5	1.1	1.4
Debtors Turnover Ra	5.2	5.1	3.9	4.9
Creditors Turnover R	8.1	8.0	6.5	8.0
Solvency Ratios				
Debt / Equity	0.3	0.5	0.5	0.4
Current Ratio	2.7	3.7	3.7	3.5
Quick Ratio	1.6	2.1	2.2	2.0

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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