

Strong all-round operational performance...

Elgi Equipments (Elgi) reported a strong Q2FY21 with consolidated revenue up 8% YoY to ₹ 480.3 crore vs. I-direct estimate of ₹ 398.2 crore. Standalone revenue (domestic & direct exports compressor) de-grew 3% YoY to ₹ 263.2 crore (~55% of consolidated topline) while international compressor business posted robust growth of 43.8% YoY (contributing ~38% of consolidated topline), the automotive segment revenue declined 23.8% YoY (~7% of firm's topline). EBITDA margins improved significantly by 630 bps YoY to 13.8% in Q2FY21 (much better than our estimates of 6%) primarily due to better revenue booking and significant reduction in operating expenses as business operations and demand revived in key geographies. Hence, absolute EBITDA almost doubled to ₹ 66.3 crore YoY (vs. our estimate of ₹ 23.9 crore). PAT came in at ₹ 33.3 crore, up 185% YoY mainly on account of better profitability margins, higher other income. Other income grew 65% to ₹ 5.3 crore on a YoY basis.

Visible green shoots in India business amid challenges

Elgi's standalone air compressor (domestic plus direct export) revenue declined mere 3% to ₹ 263 crore in Q2FY21. While pure domestic air compressor sales came in better than expected with decline of 11% YoY to ₹ 191 crore. Elgi is on track on its strategy to curtail employee cost and reduce fixed cost by ~15-20% in FY21E primarily in India business. Elgi has seen activities across all major industries and expects further revival in capacity building with smaller incremental investments by industries. Its disrupted AB series oil free compressor is gaining good traction in India as well as abroad. After-market (~20-25% to India topline), continues to see strong traction across geographies. Debt has reduced to ₹ 100 crore in Q2FY21 and is expected to further reduce by ₹ 30 crore in H2FY21 while working capital has also reduced, QoQ and cash position remains strong. The operational run rate is expected to continue over H2FY21E.

Strong international performance; key to future growth...

In Q2FY21, air compressor international sales (including exports from India) contributed ~57% to total air compressor sales in Q2FY21 topline with growth of ~39% to ₹ 253 crore YoY. It performed well in key international markets led by Australia, US, Europe while South East Asia, Gulf reported moderate performances. Margins are expected to improve due to ramp-up in international business, operating cost reduction initiatives to lead incremental revenue, future growth and positive operating leverage.

Valuation & Outlook

Going ahead, further traction in international market, new products like oil free compressors (AB series) would aid growth while green shoots of revival visible in India business would further aid topline. Also, its strategy on cost reduction, focus on cash business would help deal with working capital, debt reduction and liquidity situation. We expect revenue, EBITDA growth of 7.9%, 37%, CAGR, respectively, in FY20-22E. We revise our target price to ₹ 140 (32x FY22 EPS of ₹ 4.4) and upgrade our rating from HOLD to **BUY**.



Particulars	
Particular	Amount
Market Capitalization	₹3803 Crore
Total Debt (FY 20)	₹390 Crore
Cash & Inv. (FY 20)	₹86 Crore
EV (FY 20)	₹4107 Crore
52 week H/L (₹)	142 / 51
Equity capital	₹31.7 Crore
Face value	₹1

Key Highlights

- Air compressor international sales (including export from India) that contributed ~57% to total air compressor sales in Q2FY21, grew 39% YoY
- Pure domestic air compressor sales came in better than expected with a fall of ~11%, YoY to ₹ 191 crore
- Revise target price to ₹ 140 and change our rating from HOLD to BUY

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenue	1,863.5	1,829.4	1,759.9	2,129.4	7.9%
EBITDA	191.8	133.9	197.1	251.3	37.0%
EBITDA Margin (%)	10.3	7.3	11.2	11.8	
Net Profit	103.1	42.6	91.1	138.5	80.3%
EPS (₹)	3.3	1.3	2.9	4.4	
P/E (x)	36.9	89.3	41.7	27.5	
EV/EBITDA (x)	20.3	30.7	20.5	15.6	
RoCE (%)	13.8	6.5	11.4	15.3	
RoE (%)	13.4	5.5	11.2	15.0	
Growth	36.0	(1.8)	(3.8)	21.0	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	480.3	398.2	444.7	8.0	286.1	67.9	Standalone down mere 3% YoY with international up ~43.8% YoY
Other Income	5.3	4.3	3.2	65.1	5.7	-8.4	
Total Revenue	485.5	402.5	447.9	8.4	291.9	66.4	
Raw material cost	250.6	207.8	237.6	15.3	148.5	63.5	
Employee Expenses	101.0	94.4	96.2	5.0	87.6	15.3	Employee cost to normalise at current levels
Total Other expenses	62.3	72.1	77.5	-19.6	41.3	50.9	Reduction in operating expenses due to various operating cost reduction initiatives
Operating Profit (EBITDA)	66.3	23.9	33.4	98.5	8.7	663.9	
EBITDA Margins	13.8	6.0	7.5		3.0		
Interest	3.4	3.7	3.6	-5.5	3.7	-6.6	
Depreciation	18.2	17.6	15.7	16.1	17.5	4.1	
Total Tax	17.7	1.9	5.9	202.3	2.0	790.6	
PAT	33.3	5.0	11.7	185.1	-8.7	-481.0	

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	
Revenue (Segment-wise)	480.3	398.2	444.7	8.0	286.1	67.9	
Air Compressors	443.7	362.7	396.8	11.8	266.6	66.4	Positive surprise with signs of revivals in domestic business and strong growth in international
% of Sales	92%	91%	89%		93%		
Automotive Equipments	36.6	35.5	48.0	-23.8	19.5	87.6	Automotive space expected to revive in line with auto sales
% of Sales	8%	9%	11%		7%		
EBT Margin							
Air Compressors	47.1	2.0	29.8	58.2	13.8	241.7	
EBT Margin	10.6%	0.0	7.5%		5.2%		
% of EBT	94.4	87.0	92.3		79.9		
Automotive Equipments	2.8	0.3	2.5	13.7	3.5	-19.0	
EBT Margin	7.7%	0.0	5.1%		17.8%		
% of EBT	5.6	13.0	7.7		20.1		

Source: Company, ICICI Direct Research

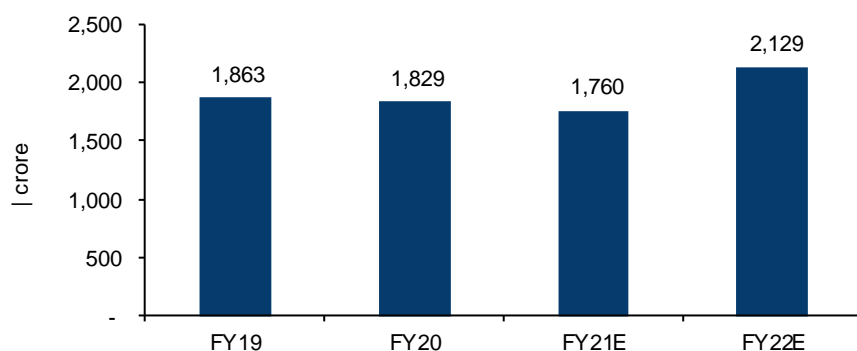
Exhibit 2: Change in estimates

	FY19	FY20	FY21E		%	FY22E		%	
₹ crore			Old	New	Change	Old	New	Change	Comments
Revenue	1,863.5	1,829.4	1,536.7	1,759.9	14.5	2,097.6	2,129.4	1.5	revised revenue growth in-line with ramp-up in domestic & international activities.
EBITDA	191.8	133.9	77.6	197.1	154.0	226.5	251.3	10.9	
EBITDA margin (%)	10.3	7.3	5.0	11.2	615 bps	10.8	11.8	100 bps	
PAT	103.1	42.6	9.3	91.1	880.0	98.3	138.5	40.9	
EPS (₹)	3.3	1.3	0.3	2.9	858.6	6.2	4.4	-29.5	

Source: Company, ICICI Direct Research

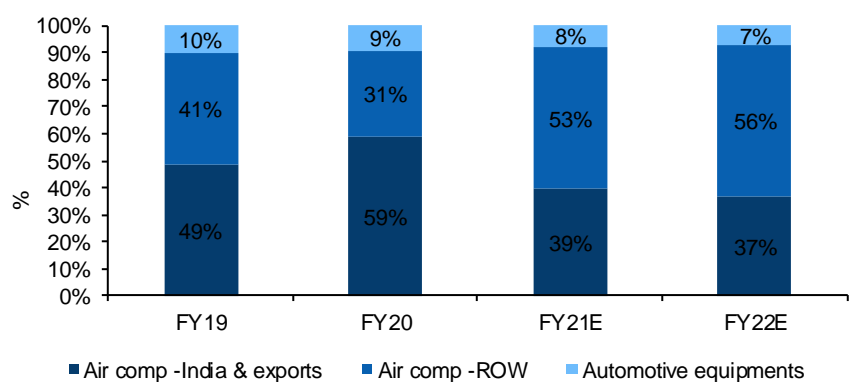
Financial story in charts

Exhibit 3: Revenue trend



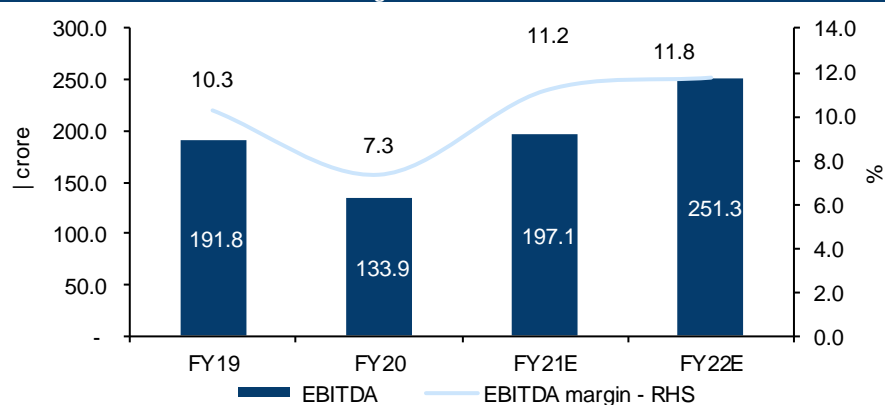
Source: Company, ICICI Direct Research

Exhibit 4: Revenue segmentation



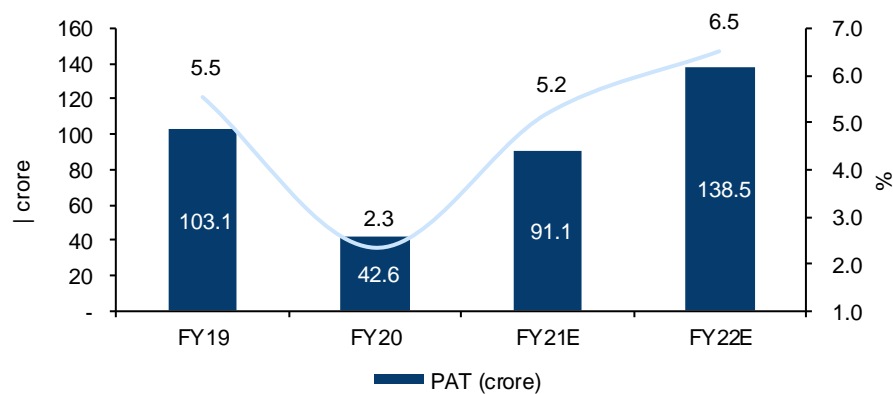
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



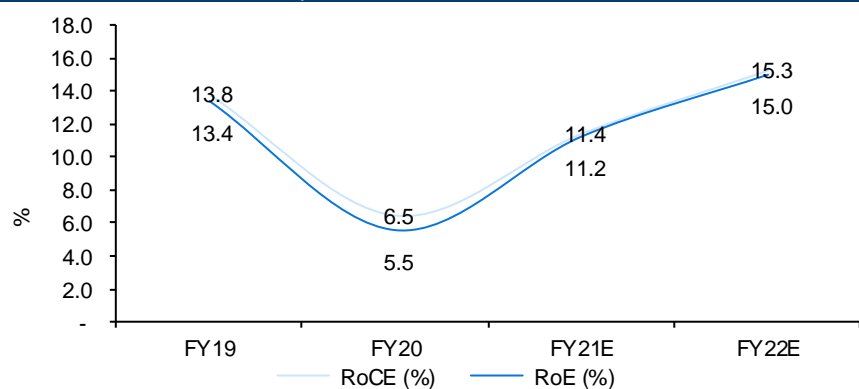
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend



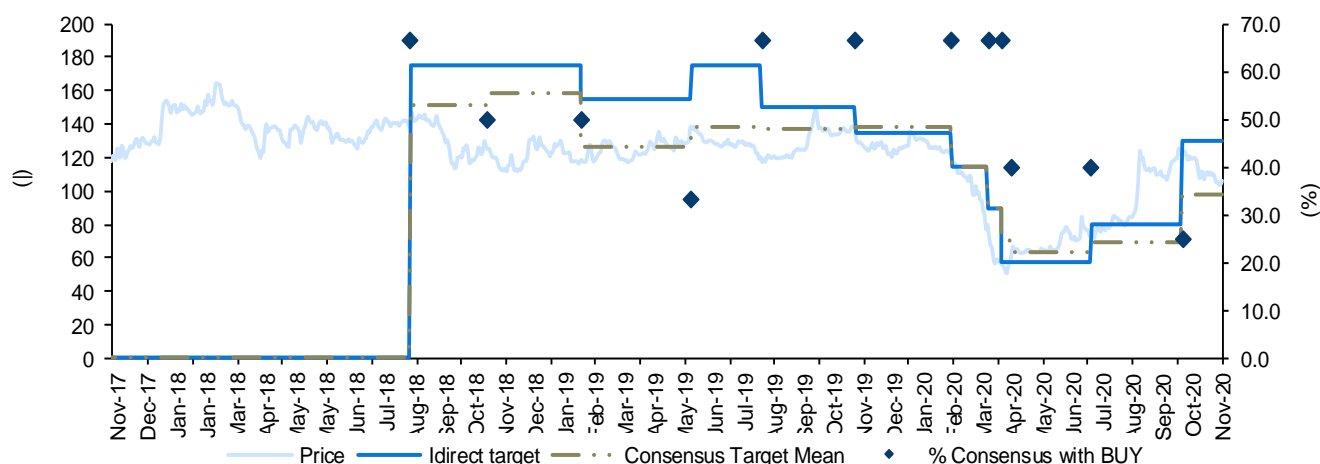
Source: Company, ICICI Direct Research

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	2-Oct-20	16.4	51.93m	0.00m
2	International Convey	10-Sep-20	15.9	50.52m	0.00m
3	Pari Washington Co P	8-Sep-20	9.5	30.11m	0.00m
4	Sbi Funds Management	30-Sep-20	8.8	27.94m	0.00m
5	Varadaraj Jairam	2-Oct-20	8.7	27.41m	0.00m
6	Gagandeep Credit Cap	30-Jun-20	5.2	16.31m	0.00m
7	Elgi Ultra Industrie	2-Oct-20	3.8	12.16m	0.00m
8	First State Investme	31-Mar-20	3.7	11.76m	0.00m
9	Nalanda India Equity	30-Jun-20	2.8	8.88m	0.00m
10	Wasatch Advisors Inc	30-Jun-20	1.7	5.42m	(0.27)m

Source: Reuters, Company, ICICI Direct Research

Exhibit 10: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	31.9	31.9	31.9	31.9	31.9
FII	19.7	20.6	20.7	21.1	21.9
DII	10.1	9.6	10.3	10.2	10.3
Others	38.3	37.9	37.1	36.8	35.9

Source: Company, ICICI Direct Research

Exhibit 11: Profit and loss statement (₹ crore)				
(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	1,863.5	1,829.4	1,759.9	2,129.4
Other Operating Income	-	-	-	-
Total Operating Income	1,863.5	1,829.4	1,759.9	2,129.4
% Growth	36.0	(1.8)	(3.8)	21.0
Other Income	10.3	15.2	11.1	20.5
Total Revenue	1,873.8	1,844.6	1,771.0	2,149.9
Growth (%)	35.6	(1.6)	(4.0)	21.4
Total Raw Material Cost	1,031.1	980.6	923.9	1,156.3
Employee Expenses	340.8	404.6	392.5	421.6
Other expenses	299.8	310.3	246.4	300.3
Total Operating Expenses	1,671.7	1,695.5	1,562.8	1,878.2
EBITDA	191.8	133.9	197.1	251.3
Growth (%)	37.8	(30.2)	47.2	27.5
Interest	9.0	15.5	13.0	6.4
PBDT	193.1	133.6	195.2	265.4
Depreciation	51.7	65.2	69.5	73.5
PBT before Exception	141.3	68.3	125.7	191.9
Total Tax	40.4	27.0	35.8	54.7
PAT before MI	100.9	41.3	89.9	137.2
Minority Interest	-	-	-	-
PAT	103.1	42.6	91.1	138.5
Growth (%)	39.3	(58.7)	-	-
EPS*	3.3	1.3	2.9	4.4

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet (₹ crore)				
(₹Crore)	FY19	FY20	FY21E	FY22E
Equity Capital	15.8	15.8	31.7	31.7
Reserve and Surplus	755.1	753.1	779.8	893.0
Total Shareholders funds	770.9	769.0	811.5	924.6
Minority Interest	-	-	-	-
Other Non Current Liabilities	12.5	37.1	37.1	37.1
Total Debt	193.1	389.7	260.0	220.0
Total Liabilities	993.8	1,211.8	1,124.6	1,197.7
Gross Block	679.2	814.8	833.5	883.5
Acc: Depreciation	167.6	207.1	276.6	350.1
Net Block	511.6	607.6	556.9	533.4
Capital WIP	5.1	3.7	-	-
Total Fixed Assets	516.8	611.4	556.9	533.4
Non Current Assets	49.3	41.9	41.9	41.9
Inventory	278.7	343.4	361.6	408.4
Debtors	366.9	346.8	385.7	420.1
Loans and Advances	7.3	6.9	8.8	10.6
Other Current Assets	61.3	114.0	123.2	127.8
Cash	110.2	85.7	26.6	91.4
Total Current Assets	824.4	896.7	905.9	1,058.3
Current Liabilities	246.7	208.8	241.1	280.0
Provisions	13.1	12.2	14.0	16.3
Net Current Assets	420.3	553.6	520.6	617.2
Total Assets	993.8	1,211.8	1,124.7	1,197.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash Flow Statement (₹ crore)				
(₹Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	103.1	42.6	91.1	138.5
Depreciation	51.7	65.2	69.5	73.5
Interest	9.0	15.5	13.0	6.4
Cash Flow before WC change	163.8	123.4	173.7	218.3
Changes in inventory	(5.0)	(64.7)	(18.2)	(46.8)
Changes in debtors	(23.5)	20.2	(39.0)	(34.3)
Changes in loans & Advances	2.0	0.4	(1.9)	(1.8)
Changes in other current assets	(20.6)	(52.7)	(9.2)	(4.6)
Net Increase in Current Assets	(47.1)	(96.9)	(68.3)	(87.5)
Changes in creditors	33.3	(37.9)	32.3	39.0
Changes in provisions	(4.7)	(1.0)	1.9	2.3
Net Increase in Current Liabilities	69.4	(61.0)	42.2	55.8
CF from operations	186.1	(34.5)	147.6	186.6
Changes in deferred tax assets	(22.6)	8.8	-	-
(Purchase)/Sale of Fixed Assets	(114.8)	(159.9)	(15.0)	(50.0)
CF from Investing	(81.6)	(126.5)	(15.0)	(50.0)
Dividend and Dividend Tax	(20.6)	(55.5)	(15.8)	(25.4)
CF from Financing	(59.8)	136.5	(191.3)	(71.7)
Net Cash flow	44.8	(24.5)	(58.7)	64.9
Opening Cash/Cash Equivalents	65.4	110.2	85.7	26.6
Closing Cash/ Cash Equivalents	110.2	85.7	26.6	91.4

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data				
EPS	3.3	1.3	2.9	4.4
BVS	24.3	24.3	25.6	29.2
Dividend per share	0.7	1.8	0.5	0.8
Dividend payout ratio	20.0	130.3	17.4	18.3
Operating Ratios				
EBITDA Margin	10.3	7.3	11.2	11.8
PAT Margin	5.5	2.3	5.2	6.5
Inventory days	54.6	68.5	75.0	70.0
Debtor days	71.9	69.2	80.0	72.0
Creditor days	48.3	41.7	50.0	48.0
Return Ratios				
RoE	13.4	5.5	11.2	15.0
RoCE	13.8	6.5	11.4	15.3
RoIC	14.4	5.7	10.8	14.7
Valuation Ratios				
EV / EBITDA	20.3	30.7	20.5	15.6
P/E	36.9	89.3	41.7	27.5
EV / Net Sales	2.1	2.2	2.3	1.8
Sales / Equity	2.4	2.4	2.2	2.3
Market Cap / Sales	2.0	2.1	2.2	1.8
Price to Book Value	4.9	4.9	4.7	4.1
Turnover Ratios				
Asset turnover	1.7	1.4	1.5	1.6
Debtors Turnover Ratio	5.2	5.1	4.8	5.3
Creditors Turnover Ratio	8.1	8.0	7.8	8.2
Solvency Ratios				
Debt / Equity	0.3	0.5	0.3	0.2
Current Ratio	2.7	3.7	3.4	3.3
Quick Ratio	1.7	2.1	2.0	1.9

Source: Company, ICICI Direct Research

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Reduce : -5% to -15%;

Sell : < -15%



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