

Strong international performance to aid growth...

Overall, Elgi's strategy to expand in new geographies in Europe, continued growth momentum in the US, Australia and expected rebound in South East Asia & Gulf markets are expected to contribute significantly to incremental growth in coming years. A rebound was visible in Q2FY21 performance with air compressor international sales (including exports from India) contributing ~57% to total air compressor sales registering growth of ~39% to ₹ 253 crore YoY. It performed well in key international markets led by Australia, US, Europe while South East Asia, and 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.

Visible green shoots in India business amid economic recovery

Elgi is on track in its strategy to curtail employee cost and reduce fixed cost by ~15-20% in FY21E primarily in the India business. Elgi has seen activities across all major industries and expects a 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 the next couple of years.

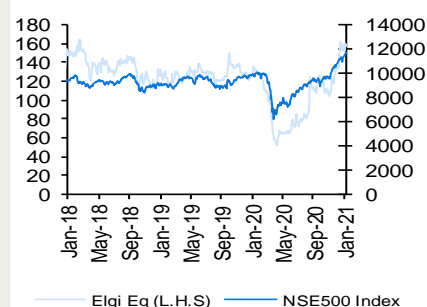
Valuation & Outlook

Going ahead, further traction in the 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 12.2%, 34.9%, CAGR, respectively, in FY20-23E backed by international growth and positive operating leverage. We revise our target price from ₹ 140 to ₹ 190 (32x FY23 EPS of ₹ 6.0) and maintain our **BUY** rating.



Particulars	Amount
Market Capitalization	₹5007 Crore
Total Debt (FY 20)	₹390 Crore
Cash & Inv. (FY 20)	₹86 Crore
EV (FY 20)	₹5311 Crore
52 week H/L (₹)	169 / 51
Equity capital	₹31.7 Crore
Face value	₹1

Price Performance



Key negative risk tour call

- Continued headwinds in India business to affect revenues while failure to reduce operating cost could negatively affect its performance
- Uncertainty in global markets, unprofitable or unwanted international expansions could hurt Elgi's long term business expansion goals

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Key Financial Summary

(₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenue	1,863.5	1,829.4	1,759.9	2,129.4	2,587.3	12.2%
EBITDA	191.8	133.9	197.1	251.3	328.6	34.9%
EBITDA Margin (%)	10.3	7.3	11.2	11.8	12.7	
Net Profit	103.1	42.6	91.1	138.5	188.8	64.3%
EPS (₹)	3.3	1.3	2.9	4.4	6.0	
P/E (x)	48.6	117.6	54.9	36.2	26.5	
EV/EBITDA (x)	26.5	39.7	26.6	20.4	15.4	
RoCE (%)	13.8	6.5	11.4	15.3	18.5	
RoE (%)	13.4	5.5	11.2	15.0	17.6	
Growth		(1.8)	(3.8)	21.0	21.5	

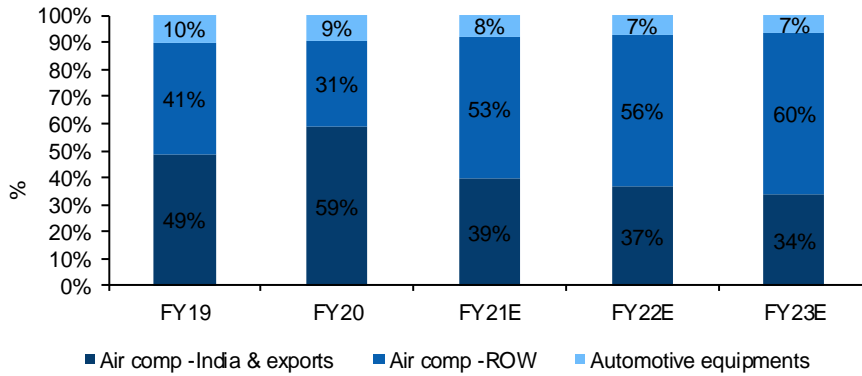
Exhibit 1: Change in estimates

₹crore	FY20		FY21E		FY22E			FY23E
	Old	New	Old	New	Old	New	Introduced	
Revenue	1,829.4	1,759.9	1,759.9	1,759.9	2,129.4	2,129.4	2,587.3	
EBITDA	133.9	197.1	197.1	197.1	251.3	251.3	328.6	
EBITDA margin (%)	7.3	11.2	11.2	11.2	11.8	11.8	12.7	
PAT	42.6	91.1	91.1	91.1	138.5	138.5	188.8	
EPS (₹)	1.3	2.9	2.9	2.9	4.4	4.4	6.0	

Source: Company, ICICI Direct Research

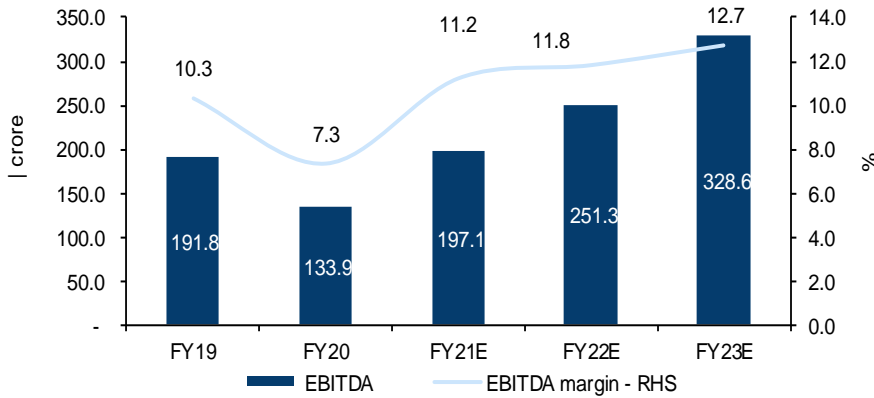
Financial story in charts

Exhibit 2: Revenue segmentation



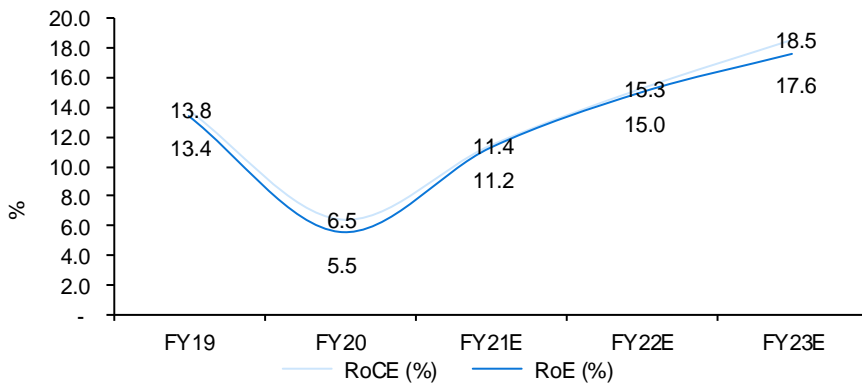
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 4: Return ratios to improve



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement (₹ crore)				
(₹Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	1,829.4	1,759.9	2,129.4	2,587.3
Other Operating Incon	-	-	-	-
Total Operating Incom	1,829.4	1,759.9	2,129.4	2,587.3
% Growth	33.5	(3.8)	21.0	21.5
Other Income	15.2	11.1	20.5	22.0
Total Revenue	1,844.6	1,771.0	2,149.9	2,609.3
Growth (%)	33.5	(4.0)	21.4	21.4
Total Raw Material Co	980.6	923.9	1,156.3	1,410.1
Employee Expenses	404.6	392.5	421.6	491.6
Other expenses	310.3	246.4	300.3	357.0
Total Operating Expen	1,695.5	1,562.8	1,878.2	2,258.7
EBITDA	133.9	197.1	251.3	328.6
Growth (%)	(3.8)	47.2	27.5	30.8
Interest	15.5	13.0	6.4	5.5
PBDT	133.6	195.2	265.4	345.1
Depreciation	65.2	69.5	73.5	82.8
PBT before Exception	68.3	125.7	191.9	262.3
Total Tax	27.0	35.8	54.7	74.8
PAT before MI	41.3	89.9	137.2	187.5
Minority Interest	-	-	-	-
PAT	42.6	91.1	138.5	188.8
Growth (%)	(42.4)	114.0	51.9	36.3
EPS*	1.3	2.9	4.4	6.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet (₹ crore)				
(₹Crore)	FY20	FY21E	FY22E	FY23E
Equity Capital	15.8	31.7	31.7	31.7
Reserve and Surplus	753.1	779.8	893.0	1,042.1
Total Shareholders func	769.0	811.5	924.6	1,073.8
Minority Interest	-	-	-	-
Other Non Current Liabi	37.1	37.1	37.1	37.1
Total Debt	389.7	260.0	220.0	190.0
Total Liabilities	1,211.8	1,124.6	1,197.7	1,316.9
Gross Block	814.8	833.5	883.5	938.5
Acc: Depreciation	207.1	276.6	350.1	432.9
Net Block	607.6	556.9	533.4	505.6
Capital WIP	3.7	-	-	-
Total Fixed Assets	611.4	556.9	533.4	505.6
Non Current Assets	41.9	41.9	41.9	41.9
Inventory	343.4	361.6	408.4	482.0
Debtors	346.8	385.7	420.1	496.2
Loans and Advances	6.9	8.8	10.6	12.9
Other Current Assets	114.0	123.2	127.8	144.9
Cash	85.7	26.6	91.4	143.9
Total Current Assets	896.7	905.9	1,058.3	1,279.9
Current Liabilities	208.8	241.1	280.0	326.1
Provisions	12.2	14.0	16.3	19.0
Net Current Assets	553.6	520.6	617.2	764.1
Total Assets	1,211.8	1,124.6	1,197.8	1,316.9

Source: Company, ICICI Direct Research

Exhibit 6: Cash Flow Statement (₹ crore)				
(₹Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	42.6	91.1	138.5	188.8
Depreciation	65.2	69.5	73.5	82.8
Interest	15.5	13.0	6.4	5.5
Cash Flow before WC cha	123.4	173.7	218.3	277.1
Changes in inventory	(64.7)	(18.2)	(46.8)	(73.6)
Changes in debtors	20.2	(39.0)	(34.3)	(76.1)
Changes in loans & Advan	0.4	(1.9)	(1.8)	(2.3)
Changes in other current	(52.7)	(9.2)	(4.6)	(17.1)
Net Increase in Current As	(96.9)	(68.3)	(87.5)	(169.2)
Changes in creditors	(37.9)	32.3	39.0	46.0
Changes in provisions	(1.0)	1.9	2.3	2.7
Net Increase in Current Lie	(61.0)	42.2	55.8	74.7
CF from operations	(34.5)	147.6	186.6	182.6
Changes in deferred tax a	8.8	-	-	-
(Purchase)/Sale of Fixed /	(159.9)	(15.0)	(50.0)	(55.0)
CF from Investing	(126.5)	(15.0)	(50.0)	(55.0)
Dividend and Dividend Tax	(55.5)	(15.8)	(25.4)	(39.6)
CF from Financing	136.5	(191.3)	(71.7)	(75.1)
Net Cash flow	(24.5)	(58.7)	64.9	52.5
Opening Cash/Cash Equiv	110.2	85.7	26.6	91.4
Closing Cash/ Cash Equiv	85.7	26.6	91.4	143.9

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	1.3	2.9	4.4	6.0
BVS	24.3	25.6	29.2	33.9
Dividend per share	1.8	0.5	0.8	1.3
Dividend payout ratio	130.3	17.4	18.3	21.0
Operating Ratios				
EBITDA Margin	7.3	11.2	11.8	12.7
PAT Margin	2.3	5.2	6.5	7.3
Inventory days	68.5	75.0	70.0	68.0
Debtor days	69.2	80.0	72.0	70.0
Creditor days	41.7	50.0	48.0	46.0
Return Ratios				
RoE	5.5	11.2	15.0	17.6
RoCE	6.5	11.4	15.3	18.5
RoIC	5.7	10.8	14.7	18.9
Valuation Ratios				
EV / EBITDA	39.7	26.6	20.4	15.4
P/E	117.6	54.9	36.2	26.5
EV / Net Sales	2.9	3.0	2.4	2.0
Sales / Equity	2.4	2.2	2.3	2.4
Market Cap / Sales	2.7	2.8	2.4	1.9
Price to Book Value	6.5	6.2	5.4	4.7
Turnover Ratios				
Asset turnover	1.4	1.5	1.6	1.8
Debtors Turnover Ra	5.1	4.8	5.3	5.6
Creditors Turnover R	8.0	7.8	8.2	8.5
Solvency Ratios				
Debt / Equity	0.5	0.3	0.2	0.2
Current Ratio	3.7	3.4	3.3	3.3
Quick Ratio	2.1	2.0	1.9	1.9

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, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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