

May 17, 2022

Beat on all fronts!

About the stock: Elgi Equipments (Elgi) manufactures a wide range of air compressors (~92% of revenue) and automotive equipment (~8%).

- 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 ~50% in FY22)

Q4FY22 Results: Elgi reported strong Q4FY22 results higher than our estimates

- Consolidated revenues came in at ₹ 727.6 crore, up 19.2% YoY
- EBITDA margins came in at 14.6% in Q4FY22 (above our estimates of 11.1%) despite higher commodity prices and operating costs
- Consequently, PAT was at ₹ 73.1 crore, up 68.5% YoY

What should investors do? Elgi's share price has grown by ~4.5x over the past six years (from ~₹ 65 in March 2016 to ~₹ 370 levels in February 2022).

- We remain long term positive on the stock and change our rating from HOLD to **BUY**

Target Price and Valuation: We value Elgi at ₹ 390 i.e. 45x P/E on FY24E EPS

Key triggers for future price performance:

- Going forward, accelerated growth in international markets, new products like disrupted AB series compressors, good traction in India business to drive long term incremental growth
- We expect revenue, EBITDA to grow at CAGR of 20.5%, 27.2%, respectively, in FY22-24E 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 ABB in our coverage.

- It expects operating margins to improve with increase in capacity utilisation, change in revenue mix, cost optimisation programmes and localisation
- BUY with target price of ₹ 2625



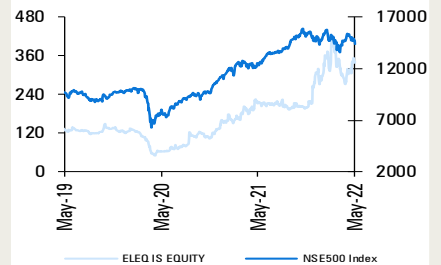
Particulars

Particular	Amount
Market Capitalization	₹ 9745 Crore
Total Debt (FY22)	₹ 326 Crore
Cash & Inv. (FY22)	₹ 122 Crore
EV (FY22)	₹ 9950 Crore
52 week H/L (₹)	422 / 191
Equity capital	₹ 31.7 Crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	31.9	31.9	31.9	31.3
FII	23.0	23.8	24.9	26.2
DII	9.2	7.3	6.8	6.0
Others	35.8	36.9	36.4	36.3

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)	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenue	1,829.4	1,924.1	2,524.7	13.0%	3,057.4	3,668.9	20.5%
EBITDA	133.9	215.7	294.9	16.2%	366.9	477.0	27.2%
EBITDA Margin (%)	7.3	11.2	11.7		12.0	13.0	
Net Profit	42.6	102.5	181.0	19.6%	209.0	275.5	23.4%
EPS (₹)	1.3	3.2	5.7		6.6	8.7	
P/E (x)	228.8	95.1	53.9		46.6	35.4	
EV/EBITDA (x)	75.0	45.7	33.7		26.5	20.1	
RoCE (%)	6.5	11.7	18.9		17.8	20.2	
RoE (%)	5.5	11.8	18.7		18.5	20.3	
Growth		5.2	31.2		21.1	20.0	

Key takeaways of recent quarter....

Q4FY22 Results: Reports strong number higher than our estimates...

- Consolidated revenue grew 19.2% YoY to ₹ 727.6 crore vs. I-direct estimate of ₹ 687 crore. Standalone revenue (domestic & direct exports compressor) grew 16% YoY to ₹ 456 crore (~63% of consolidated topline) led by better demand in domestic market and robust exports despite challenges, the automotive (ATS) segment revenue grew 20% to ₹ 60.6 crore, YoY
- EBITDA margins came in strong at 14.6% in Q4FY22 (above our estimates of 11.1%) despite higher commodity prices, operating costs. Consequently, absolute EBITDA grew 34.1% to ₹ 106.2 crore YoY (vs. our estimate of ₹ 76.2 crore)
- PAT came in at ₹ 73.1 crore, up 68.5% YoY aided by strong operational performance and higher other income

Q4FY22 Earnings Conference Call highlights

- Elgi's standalone air compressor (domestic & direct exports compressor) grew 16.1% YoY to ₹ 456 crore (~63% of consolidated topline). The compressor business' performance in the domestic market exceeded expectations as demand was strong. Barring West Asian countries, Africa, Australia and South-East Asian countries that were affected by Covid lockdowns, Europe & America also saw high demand and Australia is recovering from a low base in FY22
- FY22 growth was primarily led two-third by volume and one-third by price. Road, construction, mining, textiles, dam construction did well in FY22. Elgi is planning to launch a product related to water well, which will be best in the world. Elgi will make decision on prices to recover fully the high raw material and freight costs and a decision on this will be taken by the end of next month
- Geographically India was excellent, compressors for oxygen which was strong in the middle of Q3FY22. Elgi is tapping PLI opportunity and touched base with those who have applied for it. However, it is early to say how big is the opportunity. Europe was way ahead of estimates and planned losses are lower. These planned losses will remain two more years but the same will be lower. In the US, portable compressors are used in construction industry and have grown very strong in the US markets. In Europe and US inquiry levels are pretty strong with order conversion while in Australia it is slowly picking up
- Elgi has done a capex ₹ 35 crore in FY22, largely for machining capabilities
- The management is remaining cautiously optimistic and targeted a double digit volume growth barring global headwinds like inflation, wars and political unrest

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	727.6	687.4	610.6	19.2	655.6	11.0	Standalone revenue grew 16% YoY led by good domestic demand
Other Income	15.0	11.0	5.8	158.8	10.8	38.3	
Total Revenue	742.6	698.4	616.4	20.5	666.4	11.4	
Raw material cost	379.2	373.7	333.6	6.3	352.8	13.5	
Employee Expenses	123.0	129.2	112.3	9.5	125.3	-1.8	
Total Other expenses	119.2	108.2	85.5	39.5	103.7	15.0	
Operating Profit (EBITDA)	106.2	76.2	79.2	34.1	73.9	43.7	
EBITDA Margins	14.6	11.1	13.0		11.3		
Interest	2.4	3.0	3.2	-24.2	3.0	-20.3	
Depreciation	19.9	17.5	19.6	1.5	17.8	12.1	
Total Tax	26.6	21.9	19.4	37.0	21.9	21.3	
PAT	73.1	44.5	43.4	68.5	41.7	75.1	

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Revenue (Segment-wise)	727.6	687.4	610.6	19.2	655.6	11.0	
Air Compressors	667.6	610.0	560.1	19.2	598.0	11.6	Getting gradual traction in domestic business and decent incremental growth in international market
% of Sales	92%	92%	92%		91%		
Automotive Equipments	60.6	52.0	50.5	20.0	57.8	4.8	
% of Sales	8%	8%	8%		9%		
EBT Margin							
Air Compressors	57.3	75.0	39.5	45.2	71.6	-19.9	
EBT Margin	8.6%	12.3%	7.0%		12.0%		
% of EBT	89.7	94.1	86.0		93.7		
Automotive Equipments	6.6	4.7	6.4	2.8	4.8	37.2	
EBT Margin	10.9%	9.0%	12.7%		8.3%		
% of EBT	10.3	5.9	14.0		6.3		

Source: Company, ICICI Direct Research

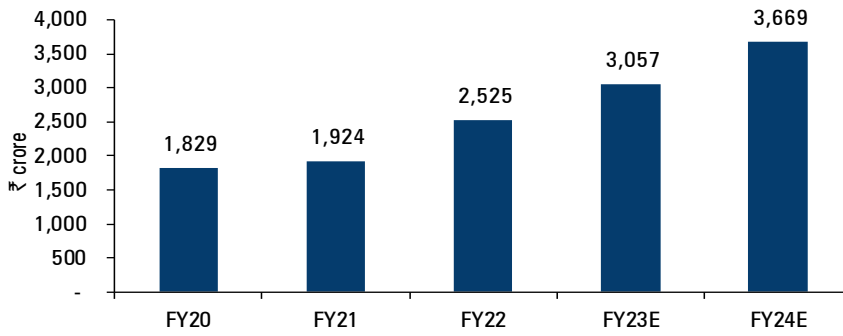
Exhibit 2: Change in estimates

₹ crore	FY21	FY22	FY23E		%	FY24E		%
			Old	New		Old	New	
Revenue	1,924.1	2,524.7	2,679.5	3,057.4	14.1	3,215.4	3,668.9	14.1
EBITDA	215.7	294.9	340.0	366.9	7.9	440.5	477.0	8.3
EBITDA margin (%)	11.2	11.7	12.7	12.0	-70 bps	13.7	13.0	-70 bps
PAT	102.5	181.0	200.5	209.0	4.2	261.4	275.5	5.4
EPS (₹)	3.2	5.7	6.3	6.6	4.7	8.2	8.7	6.0

Source: Company, ICICI Direct Research

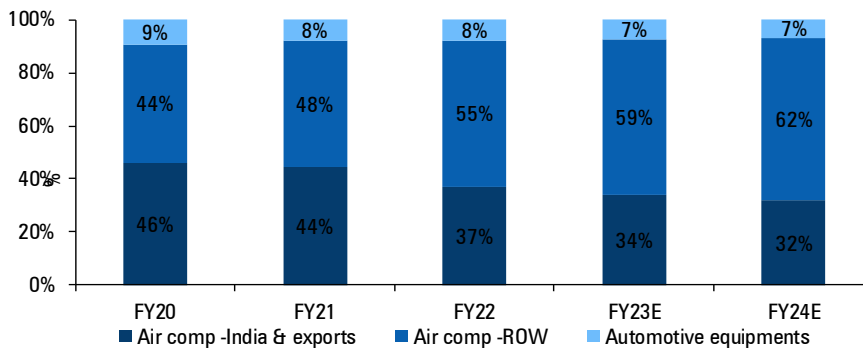
Financial story in charts

Exhibit 3: Revenue trend



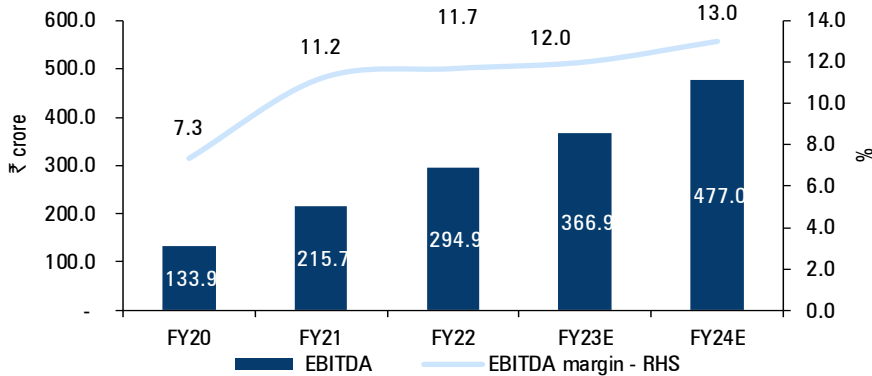
Source: Company, ICICI Direct Research

Exhibit 4: Revenue segmentation



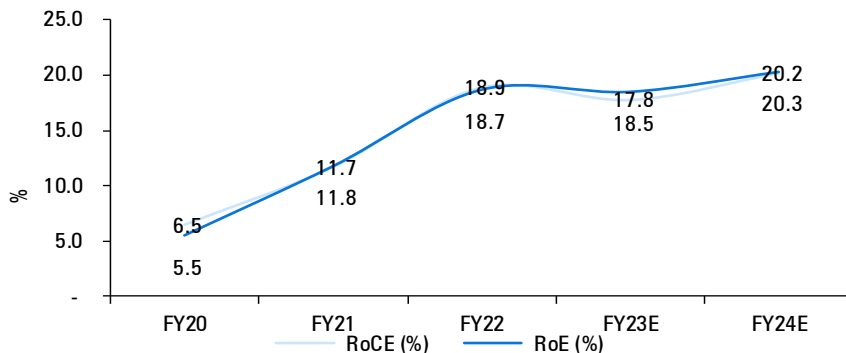
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: Return ratios to improve



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	1,924.1	2,524.7	3,057.4	3,668.9
Other Operating Income	-	-	-	-
Total Operating Income	1,924.1	2,524.7	3,057.4	3,668.9
% Growth	40.4	31.2	21.1	20.0
Other Income	23.5	55.0	24.5	24.5
Total Revenue	1,947.5	2,579.7	3,081.9	3,693.4
Growth (%)	40.9	32.5	19.5	19.8
Total Raw Material Costs	1,027.6	1,354.5	1,644.9	1,944.5
Employee Expenses	411.7	483.9	605.4	726.4
Other expenses	269.1	391.4	440.3	521.0
Total Operating Expense	1,708.4	2,229.8	2,690.5	3,191.9
EBITDA	215.7	294.9	366.9	477.0
Growth (%)	55.0	36.7	24.4	30.0
Interest	13.5	11.1	9.1	8.5
PBDT	225.7	338.7	382.3	493.0
Depreciation	74.3	74.5	97.8	117.4
PBT before Exceptional	151.3	264.2	284.5	375.6
Total Tax	50.3	84.6	76.8	101.4
PAT before MI	101.1	179.6	207.6	274.2
Minority Interest	-	-	-	-
PAT	102.5	181.0	209.0	275.5
Growth (%)	38.6	76.5	15.5	31.8
EPS*	3.2	5.7	6.6	8.7

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	102.5	181.0	209.0	275.5
Depreciation	74.3	74.5	97.8	117.4
Interest	13.5	11.1	9.1	8.5
Cash Flow before WC changes	190.3	266.6	315.9	401.4
Changes in inventory	0.7	(140.4)	5.6	(95.5)
Changes in debtors	(53.0)	(72.2)	(72.6)	(108.9)
Changes in loans & Advances	0.9	3.1	(6.3)	(1.8)
Changes in other current assets	13.6	(32.3)	(8.0)	(28.1)
Net Increase in Current Assets	(37.8)	(241.6)	(81.3)	(234.3)
Changes in creditors	80.1	29.7	91.8	82.1
Changes in provisions	1.1	2.7	3.8	3.9
Net Increase in Current Liabilities	117.0	33.4	150.7	128.8
CF from operations	269.5	58.3	385.4	295.9
Changes in deferred tax assets	(15.7)	(7.5)	-	-
(Purchase)/Sale of Fixed Assets	(54.3)	(54.3)	(95.0)	(95.0)
CF from Investing	(58.0)	(62.1)	(95.0)	(95.0)
Dividend and Dividend Tax	(25.4)	(25.4)	(47.5)	(47.5)
CF from Financing	(35.2)	(136.5)	(79.4)	(76.0)
Net Cash flow	176.3	(140.3)	210.9	124.8
Opening Cash/Cash Equivalent	85.7	262.0	121.6	332.5
Closing Cash/ Cash Equivalent	262.0	121.6	332.5	457.4

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	31.7	31.7	31.7	31.7
Reserve and Surplus	838.2	937.2	1,098.6	1,326.6
Total Shareholders funds	869.9	968.9	1,130.3	1,358.2
Minority Interest	-	-	-	-
Other Non Current Liabilities	53.1	48.4	48.4	48.4
Total Debt	369.6	326.2	303.4	283.4
Total Liabilities	1,306.6	1,363.7	1,502.3	1,710.2
Gross Block	868.7	922.2	1,022.2	1,117.2
Acc: Depreciation	281.4	355.9	453.8	571.2
Net Block	587.3	566.2	568.4	546.0
Capital WIP	4.1	5.0	-	-
Total Fixed Assets	591.4	571.2	568.4	546.0
Non Current Assets	55.9	63.0	63.0	63.0
Inventory	342.7	483.1	477.5	573.0
Debtors	399.7	471.9	544.5	653.4
Loans and Advances	6.0	2.9	9.2	11.0
Other Current Assets	100.4	132.7	140.6	168.8
Cash	262.0	121.6	332.5	457.4
Total Current Assets	1,110.8	1,212.1	1,504.3	1,863.5
Current Liabilities	288.9	318.7	410.4	492.5
Provisions	13.2	15.9	19.7	23.6
Net Current Assets	650.7	718.6	860.1	1,090.5
Total Assets	1,306.6	1,363.7	1,502.3	1,710.2

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	3.2	5.7	6.6	8.7
BVS	27.5	30.6	35.7	42.9
Dividend per share	0.8	0.8	1.5	1.5
Dividend payout ratio	24.8	14.0	22.7	17.3
Operating Ratios				
EBITDA Margin	11.2	11.7	12.0	13.0
PAT Margin	5.3	7.2	6.8	7.5
Inventory days	65.0	69.8	57.0	57.0
Debtor days	75.8	68.2	65.0	65.0
Creditor days	54.8	46.1	49.0	49.0
Return Ratios				
RoE	11.8	18.7	18.5	20.3
RoCE	11.7	18.9	17.8	20.2
RoC	12.4	16.5	20.4	24.9
Valuation Ratios				
EV / EBITDA	45.7	33.7	26.5	20.1
P/E	95.1	53.9	46.6	35.4
EV / Net Sales	5.1	3.9	3.2	2.6
Sales / Equity	2.2	2.6	2.7	2.7
Market Cap / Sales	5.1	3.9	3.2	2.7
Price to Book Value	11.2	10.1	8.6	7.2
Turnover Ratios				
Asset turnover	1.4	1.7	1.8	1.9
Debtors Turnover Ratio	5.2	5.8	6.0	6.1
Creditors Turnover Ratio	7.7	8.3	8.4	8.1
Solvency Ratios				
Debt / Equity	0.4	0.3	0.3	0.2
Current Ratio	2.8	3.3	2.7	2.7
Quick Ratio	1.7	1.8	1.6	1.6

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1537	1,930	Buy	215672	50.2	65.5	72.9	30.6	23.5	21.1	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2293	2,900	Buy	81658	29.5	36.6	48.2	77.8	62.6	47.6	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	1790	1,895	Hold	16883	56.8	59.9	67.8	31.5	29.9	26.4	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	1919	2,445	Buy	22866	27.4	42.5	48.9	70.1	45.2	39.2	12.1	17.2	18.1	9.5	13.4	13.9
KEC International (KECIN)	365	379	Hold	9374	12.7	15.8	25.3	28.7	23.1	14.4	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	143	179	Buy	3297	0.7	2.8	3.3	201.5	51.7	43.2	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	257	390	Buy	8156	5.7	6.6	8.7	45.1	39.0	29.6	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	219	250	Buy	53361	9.4	11.2	12.5	23.4	19.5	17.6	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	313	500	Buy	4121	44.0	55.6	-	7.1	5.6	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3169	3,720	Buy	15667	77.0	89.6	103.5	41.2	35.4	30.6	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	1820	2,405	Buy	13690	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	111	220	Buy	1074	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	183	290	Buy	2182	9.8	12.7	16.2	18.7	14.4	11.3	22.5	24.4	25.9	15.1	16.6	17.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: < -15%



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