

February 12, 2025

Q3FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	608		607	
Sales (Rs. m)	39,436	44,484	39,777	44,336
% Chng.	(0.9)	0.3		
EBITDA (Rs. m)	6,310	7,384	6,364	7,360
% Chng.	(0.9)	0.3		
EPS (Rs.)	13.3	15.6	13.3	15.6
% Chng.	-	0.1		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	32,178	34,647	39,436	44,484
EBITDA (Rs. m)	4,860	5,232	6,310	7,384
Margin (%)	15.1	15.1	16.0	16.6
PAT (Rs. m)	3,119	3,437	4,222	4,947
EPS (Rs.)	9.8	10.8	13.3	15.6
Gr. (%)	5.9	10.2	22.9	17.2
DPS (Rs.)	2.0	2.2	2.7	3.1
Yield (%)	0.4	0.4	0.5	0.6
RoE (%)	20.9	19.7	20.5	20.3
RoCE (%)	25.6	24.1	25.2	25.3
EV/Sales (x)	5.3	4.8	4.2	3.7
EV/EBITDA (x)	34.9	32.0	26.3	22.2
PE (x)	54.8	49.7	40.5	34.5
P/BV (x)	10.6	9.1	7.7	6.5

Key Data

ELGE.BO | ELEQ IN

52-W High / Low	Rs.799 / Rs.513
Sensex / Nifty	76,294 / 23,072
Market Cap	Rs.171bn / \$ 1,967m
Shares Outstanding	317m
3M Avg. Daily Value	Rs.178.45m

Shareholding Pattern (%)

Promoter's	31.37
Foreign	29.40
Domestic Institution	5.07
Public & Others	34.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.6)	(14.5)	(20.7)
Relative	(3.3)	(10.7)	(25.6)

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Muted Q3; new product launches to drive growth

Quick Pointers:

- During the quarter, margins were weighed down by a one-off large increase in fixed costs to the extent of ~Rs70mn.
- The management believes that 10-12% revenue growth is achievable in the medium term, while an additional 3-4% growth can come from the new products launched.

Elgi Equipments (ELEQ) reported muted revenue growth of 3.1%, while its EBITDA margin declined by 165bps YoY to 14.1%. During the quarter, the company introduced 2 new products aimed at enhancing its competitive positioning. The first, 'Stabilisor' is designed as a superior alternative to variable frequency drives (VFDs), while the second is a lower rating air compressor specifically developed to counter Chinese imports in the discount segment. Introduction of new products, coupled with an increasing market share in the premium screw compressors segment, will strengthen the company's growth trajectory in the domestic market. Internationally, while the portable business continues to face challenges in the US, Europe and Australia, the industrial segment is witnessing sustained traction in the US. Additionally, the European market appears to have bottomed out and is now on a recovery path. The company's intensified focus on key export geographies is expected to further accelerate export growth. Furthermore, the globally expanding installed base positions the company for increased aftermarket revenue and sustained market share gains. However, a slowdown in the automotive sector could pose challenges for the automotive equipment business.

We believe ELEQ is poised for healthy long-term growth on the back of 1) it being among top 2/10 players in the Indian/global air compressors market, 2) technology development along with strong backward integration, 3) its growing global installed base driving high-margin aftermarket sales, 4) new product launches and 5) market leadership in automotive garage equipment. The stock is currently trading at a PE of 40.5x/34.5x on FY25/26E. We maintain 'Accumulate' rating with a TP of Rs608 (same as earlier), valuing the company at a PE of 43x Sep'26E (same as earlier).

Decent execution drives topline & margins; sales mix aids PAT: Revenue increased by 3.1% YoY to Rs8.5bn (PL: Rs9.0bn) driven by 2.9% YoY growth in air compressors sales to Rs7.8bn and 5.6% YoY growth in automotive equipment to Rs691mn. EBITDA declined by 7.7% YoY to Rs1.2bn (PL: Rs1.4bn). EBITDA margin also declined by 165bps YoY to 14.1% (PL & consensus: 15.5%) primarily due to higher other expenses (+17.1% YoY to Rs1.4bn). PBT declined by 3.6% YoY to Rs1.1bn (PL: Rs1.3bn). Air compressors PBT declined by 4.4% YoY to Rs1.0bn, while PBT margin fell 99bps YoY to 13.0%. Meanwhile, automotive equipment PBT rose by 9.0% YoY to Rs72mn and PBT margin also increased by 33bps YoY to 10.5%. Adj PAT declined by 3.9% YoY to Rs806mn (PL: Rs915mn) due to weaker operating performance. Compressors geography mix stood at 49%/51% for India/RoW (vs 48%/52% in Q3FY24).

Exhibit 1: Operational one-off expenses worth ~Rs70mn weigh down EBITDA margin to 14.1% (vs 15.7% in Q3FY24)

Rs mn	Q3FY25	Q3FY24	YoY gr.	Q3FY25E	% Var.	Q1FY25	QoQ gr.	9MFY25	9MFY244	YoY gr.
Sales	8,476	8,218	3.1%	9,017	-6.0%	8,011	5.8%	25,175	23,518	7.0%
Gross Profit	4,349	4,202	3.5%	4,635	-6.2%	4,162	4.5%	13,075	12,095	8.1%
Margin (%)	51.3	51.1	18	51.4	(8.6)	52.0	(64)	51.9	51.4	51
Employee Cost	1,727	1,689	2.3%	1,740	-0.7%	1,684	2.6%	5,107	4,853	5.3%
as % of sales	20.4	20.5	(17)	19.3	108.1	21.0	(64)	20.3	20.6	(35)
Other expenditure	1,427	1,219	17.1%	1,497	-4.6%	1,338	6.6%	4,218	3,635	16.0%
as % of sales	16.8	14.8	200	16.6	24.1	16.7	13	16.8	15.5	130
EBITDA	1,195	1,294	-7.7%	1,398	-14.5%	1,139	4.8%	3,750	3,608	3.9%
Margin (%)	14.1	15.7	(165)	15.5	(140.7)	14.2	(13)	14.9	15.3	(45)
Depreciation	186	195	-4.5%	200	-7.0%	191	-2.4%	565	567	-0.3%
EBIT	1,008	1,099	-8.3%	1,198	-15.8%	949	6.3%	3,184	3,041	4.7%
Margin (%)	11.9	13.4	(148)	13.3	(138.4)	11.8	5	12.6	12.9	(28)
Other Income	133	112	19.2%	150	-11.2%	136	-1.7%	410	404	1.5%
Interest	56	85	-34.3%	80	-30.4%	86	-35.1%	225	197	14.2%
PBT (ex. Extra-ordinaries)	1,086	1,126	-3.6%	1,268	-14.3%	999	8.7%	3,369	3,247	3.7%
Margin (%)	12.8	13.7	(89)	14.1	(124.5)	12.5	35	13.4	13.8	(43)
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
PBT	1,086	1,126	-3.6%	1,268	-14.3%	999	8.7%	3,369	3,247	3.7%
Total Tax	300	304	-1.3%	368	-18.3%	272	10.6%	932	944	-1.3%
Effective Tax Rate (%)	27.7	27.0	64	29.0	(133.9)	27.2	47	27.7	29.1	(142)
PAT before JVs	786	822	-4.4%	900	-12.7%	727	8.0%	2,438	2,303	5.8%
Profit/(Loss) from JVs	20	17	19.6%	15	34.6%	1	1429.5%	44	53	-17.4%
Reported PAT	806	839	-3.9%	915	-11.9%	728	10.6%	2,481	2,356	5.3%
Adj. PAT	806	839	-3.9%	915	-11.9%	728	10.6%	2,481	2,356	5.3%

Source: Company, PL

Exhibit 2: Revenue growth across both reportable segments, PBT margin of air compressors decline by 99bps YoY to 13.0%

Segment Data	Q3FY25	Q3FY24	YoY gr.	Q3FY25E	% Var.	Q1FY25	QoQ gr.	9MFY25	9MFY244	YoY gr.
Revenue (Rs mn)										
Air Compressors	7,791	7,570	2.9%	8,291	-6.0%	7,391	5.4%	23,119	21,610	7.0%
Automotive Equipment	691	654	5.6%	733	-5.7%	627	10.2%	2,077	1,929	7.7%
PBT (Rs mn)										
Air Compressors	1,014	1,060	-4.4%	1,219	-16.8%	961	5.5%	3,181	3,058	4.0%
Automotive Equipment	72	66	9.0%	73	-1.4%	37	93.1%	188	190	-1.3%
PBT Margin (%)										
Air Compressors	13.0	14.0	(99)	14.7	(168.9)	13.0	1	13.8	14.1	(39)
Automotive Equipment	10.5	10.1	33	10.0	45.2	6.0	449	9.0	9.9	(82)

Source: Company, PL

Conference Call Highlights

- **Revenue loss of ~Rs150mn and higher fixed costs impact margins:** During the quarter, transport-related costs of ~Rs50mn and warranty related costs of ~Rs20mn impacted margins. The company is catching up on the inventory shortfall in export markets. It continues to face challenges due to the Red Sea crisis, which has led to higher transport costs. Furthermore, due to technical difficulties with the GST portal over the last few days of the quarter, the company lost revenue of ~Rs150mn in Q3FY25, which has been deferred to Q4FY25.
- **The company launched 2 new products**, which are expected to be sold in India in the next 1 month and in RoW in the next 6 months.
 - **Stabilisor:** The company launched Stabilisor, which will serve as a replacement for VFD in compressors.
 - Stabilisor will recover any excess capacity in the systems and reuse it to capitalize on all possibilities for any loss recovery.
 - Company-run field tests yielded positive results with compressors fitted with Stabilisor showing zero fluctuation.
 - With the use of this product, customers **will be able to save ~Rs0.4mn annually on power costs, recovering the cost of entire compressor and Stabilisor in less than 2 years.**
 - Stabilisor is also cheaper, **costing only 5% of VFD.**
 - The company has launched 2 variants of Stabilisor: heavy and light. While both variants can be fitted on any compressor, the heavy Stabilisor will need to be fitted in Elgi's factory and the light one can be fitted with a retrofit kit on the field.
 - **In India, 20-25k compressors are running without VFDs, which will be Elgi's addressable market for Stabilisor.**
 - It has also launched a product in the lower kW category to compete with Chinese imports in the discount screw compressors market. **The new product will have an addressable market of ~Rs2.0bn.** While Chinese imports cost 40-45% lower than Elgi's compressor, it will have ~15% better performance compared to the former.
- **Recovery is likely in Europe:** Europe, a challenging market, seems to have bottomed out and is on a recovery path. The management has been taking deliberate steps to grow the business in Europe. It is expected to break even at EBITDA level, while progressive reduction in working capital will reduce interest costs, leading to reduction in loss after taxes in coming years. **The management believes that lower double-digit growth can be achieved in Europe**, while the launch of new products will further aid this growth.
- **Portable business continues to struggle in North America.** Portable business is extremely cyclical and its market is currently down by 30-40%. While the business accounted for 15-20% of North American revenue during its peak, it

is currently lower than 10%. However, the business is expected to break even this year. Except portable business, all other businesses are doing well in the North American market.

- **Aftermarket business:** Elgi's aftermarket market share in India is healthy with opportunities available for further gain. Its aftermarket market share is low in RoW due to a lower installed base. The company's installed base is slowly growing in RoW, which is likely to lead to a gradual improvement in its aftermarket market share.
- Market dynamics:
 - **Oil-lubricated screw compressors:** Chinese imports have been dominant in the discount segment. Elgi has launched a new product to compete with Chinese imports in the discount segment, hoping to gain some share.
 - **Oil-free screw compressors:** This market has grown and so has Elgi's market share. Elgi has a much stronger market presence in this segment. It also has some new products lined up for launch, which will help it to gain more share.
 - **Centrifugal compressors:** This being a relatively smaller market for Elgi, it is strategically not inclined to compete in this market. Further, challenges exist in the forms of delivery and pricing competition in this market.
 - **Water well air compressors:** The water well market has been down this year; however, Elgi's market share in this segment continues to grow. It holds ~40% market share, while further opportunities exist.
- The company has incurred a **capex of ~Rs600mn in 9MFY25** and had budgeted ~Rs2.5bn for new projects, part of which will be incurred in Q4FY25 and rest in FY26.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	32,178	34,647	39,436	44,484
YoY gr. (%)	5.8	7.7	13.8	12.8
Cost of Goods Sold	15,689	16,769	19,087	21,486
Gross Profit	16,488	17,878	20,349	22,998
Margin (%)	51.2	51.6	51.6	51.7
Employee Cost	6,549	6,860	7,611	8,497
Other Expenses	5,079	5,786	6,428	7,118
EBITDA	4,860	5,232	6,310	7,384
YoY gr. (%)	12.3	7.7	20.6	17.0
Margin (%)	15.1	15.1	16.0	16.6
Depreciation and Amortization	766	761	876	969
EBIT	4,093	4,471	5,434	6,415
Margin (%)	12.7	12.9	13.8	14.4
Net Interest	293	305	278	238
Other Income	550	582	699	733
Profit Before Tax	4,350	4,748	5,855	6,911
Margin (%)	13.5	13.7	14.8	15.5
Total Tax	1,283	1,363	1,704	2,053
Effective tax rate (%)	29.5	28.7	29.1	29.7
Profit after tax	3,067	3,385	4,151	4,858
Minority interest	-	-	-	-
Share Profit from Associate	52	52	71	89
Adjusted PAT	3,119	3,437	4,222	4,947
YoY gr. (%)	5.9	10.2	22.9	17.2
Margin (%)	9.5	9.8	10.5	10.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,119	3,437	4,222	4,947
YoY gr. (%)	(15.9)	10.2	22.9	17.2
Margin (%)	9.7	9.9	10.7	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,119	3,437	4,222	4,947
Equity Shares O/s (m)	317	317	317	317
EPS (Rs)	9.8	10.8	13.3	15.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	8,880	10,192	11,690	13,176
Tangibles	7,977	9,231	10,665	12,089
Intangibles	903	961	1,024	1,087
Acc: Dep / Amortization	5,067	5,728	6,504	7,373
Tangibles	4,442	5,018	5,700	6,463
Intangibles	625	709	804	909
Net fixed assets	3,813	4,464	5,186	5,803
Tangibles	3,535	4,212	4,965	5,626
Intangibles	278	252	221	177
Capital Work In Progress	95	139	118	89
Goodwill	2,053	2,053	2,053	2,053
Non-Current Investments	544	547	593	642
Net Deferred tax assets	207	207	207	207
Other Non-Current Assets	167	156	177	200
Current Assets				
Investments	-	-	-	-
Inventories	6,222	6,645	7,563	8,531
Trade receivables	6,031	6,360	7,239	8,166
Cash & Bank Balance	7,745	9,003	10,019	11,134
Other Current Assets	872	901	1,025	1,157
Total Assets	28,209	30,866	34,604	38,437
Equity				
Equity Share Capital	317	317	317	317
Other Equity	15,794	18,545	22,009	26,023
Total Network	16,111	18,862	22,326	26,340
Non-Current Liabilities				
Long Term borrowings	739	689	639	589
Provisions	182	191	217	245
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	5,642	5,142	4,642	3,642
Trade payables	3,454	3,797	4,322	4,875
Other current liabilities	1,944	2,048	2,321	2,609
Total Equity & Liabilities	28,209	30,866	34,604	38,437

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	4,402	4,748	5,855	6,911
Add. Depreciation	766	761	876	969
Add. Interest	293	305	278	238
Less Financial Other Income	550	582	699	733
Add. Other	(522)	-	-	-
Op. profit before WC changes	4,940	5,814	7,009	8,118
Net Changes-WC	(417)	(252)	(1,170)	(1,234)
Direct tax	(1,646)	(1,363)	(1,704)	(2,053)
Net cash from Op. activities	2,877	4,199	4,135	4,832
Capital expenditures	(418)	(1,455)	(1,577)	(1,557)
Interest / Dividend Income	376	-	-	-
Others	(968)	(1,046)	(1,026)	(1,028)
Net Cash from Inv. activities	(1,010)	(2,501)	(2,604)	(2,585)
Issue of share cap. / premium	-	-	-	-
Debt changes	304	(550)	(550)	(1,050)
Dividend paid	(633)	(634)	(687)	(844)
Interest paid	(300)	(305)	(278)	(238)
Others	(191)	-	-	-
Net cash from Fin. activities	(820)	(1,489)	(1,515)	(2,132)
Net change in cash	1,047	209	16	115
Free Cash Flow	2,388	2,744	2,557	3,275

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	9.8	10.8	13.3	15.6
CEPS	12.3	13.2	16.1	18.7
BVPS	50.8	59.5	70.4	83.1
FCF	7.5	8.7	8.1	10.3
DPS	2.0	2.2	2.7	3.1
Return Ratio(%)				
RoCE	25.6	24.1	25.2	25.3
ROIC	35.0	33.5	33.3	31.8
RoE	20.9	19.7	20.5	20.3
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	100	97	97	97
Valuation(x)				
PER	54.8	49.7	40.5	34.5
P/B	10.6	9.1	7.7	6.5
P/CEPS	44.0	40.7	33.5	28.9
EV/EBITDA	34.9	32.0	26.3	22.2
EV/Sales	5.3	4.8	4.2	3.7
Dividend Yield (%)	0.4	0.4	0.5	0.6

Source: Company Data, PL Research

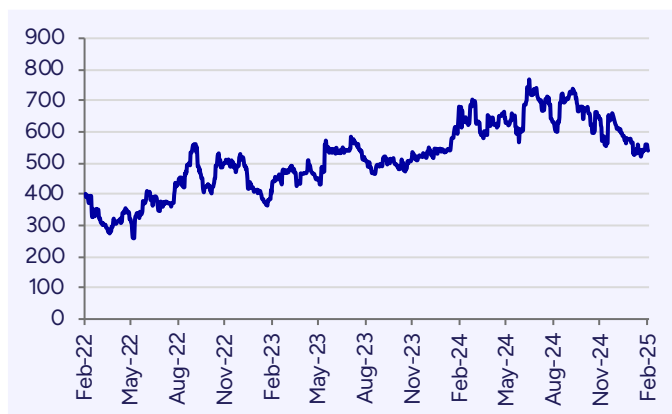
Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Revenue	8,659	8,011	8,689	8,476
YoY gr. (%)	3.6	10.7	7.8	3.1
Raw Material Expenses	4,266	3,849	4,125	4,127
Gross Profit	4,394	4,162	4,564	4,349
Margin (%)	50.7	52.0	52.5	51.3
EBITDA	1,252	1,139	1,416	1,195
YoY gr. (%)	(1.7)	28.6	(0.8)	(7.7)
Margin (%)	14.5	14.2	16.3	14.1
Depreciation / Depletion	200	191	189	186
EBIT	1,052	949	1,227	1,008
Margin (%)	12.2	11.8	14.1	11.9
Net Interest	96	86	84	56
Other Income	146	136	141	133
Profit before Tax	1,102	999	1,284	1,086
Margin (%)	12.7	12.5	14.8	12.8
Total Tax	339	272	360	300
Effective tax rate (%)	30.7	27.2	28.0	27.7
Profit after Tax	764	727	925	786
Minority interest	-	-	-	-
Share Profit from Associates	(1)	1	22	20
Adjusted PAT	762	728	947	806
YoY gr. (%)	(17.4)	20.4	3.8	(3.9)
Margin (%)	8.8	9.1	10.9	9.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	762	728	947	806
YoY gr. (%)	(55.2)	20.4	3.8	(3.9)
Margin (%)	8.8	9.1	10.9	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	762	728	947	806
Avg. Shares O/s (m)	317	317	317	317
EPS (Rs)	2.4	2.3	3.0	2.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	24-Jan-25	Accumulate	607	548

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,133	6,657
2	Apar Industries	Accumulate	8,219	7,179
3	BEML	Accumulate	3,561	3,132
4	Bharat Electronics	BUY	340	279
5	BHEL	Accumulate	226	200
6	Carborundum Universal	Accumulate	1,583	1,245
7	Cummins India	BUY	3,723	2,870
8	Elgi Equipments	Accumulate	607	548
9	Engineers India	BUY	242	170
10	GE Vernova T&D India	Accumulate	1,950	1,710
11	Grindwell Norton	BUY	2,511	1,850
12	Harsha Engineers International	Accumulate	561	493
13	Hindustan Aeronautics	Accumulate	4,692	4,110
14	Ingersoll-Rand (India)	BUY	4,467	3,800
15	Kalpataru Projects International	Accumulate	1,306	1,245
16	KEC International	Accumulate	930	813
17	Kirloskar Pneumatic Company	BUY	1,564	1,013
18	Larsen & Toubro	BUY	4,025	3,421
19	Praj Industries	BUY	751	632
20	Siemens	Accumulate	7,716	6,297
21	Thermax	Accumulate	3,857	3,385
22	Triveni Turbine	BUY	800	634
23	Voltamp Transformers	BUY	11,437	8,358

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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We/I, Mr. Amit Anwani- MBA (Finance), Mr. Prathmesh Salunkhe- MBA Finance, Mr. Het Patel- CA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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