

# Shubh Nivesh



## Moving in the right direction in the global markets...

**About the stock:** Elgi Equipment (Elgi) manufactures a wide range of air compressors (~92.5% of revenue) and automotive equipment (~7.5%).

- 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 ~55% in FY24)

### Investment Rationale:

- **Volumes to grow in mid double digits over FY25E-FY26E:** FY24 saw muted volume growth on account of ERP implementation issues in US business and demand concerns in the European markets. Going ahead, with ERP issues behind in US and strong prospects in India (mining, construction, water well, after market, industrials), Middle east and recovery in Australia and S.E. Asia, the revenues are expected to grow at a CAGR of 14.5% over FY24-FY26E. The growth will be purely driven by volumes as most of the pricing has been already in place. In Europe, the company expects to maintain sales at FY25 but at the same time achieve break even on account of various cost control initiatives. At consolidated level, after sales ( high margin segment) comprises 14% of overall sales while at standalone level the same is at 25-28%.
- **Capex to come on stream by FY26E, will further add to growth prospects:** The company has announced capacity addition in the screw compressor segment as the utilisation are at peak levels and the segments like mining, construction and industrials witnessing strong demand. This will require capex of ₹ 125 crore coupled with this Elgi is also expanding its Global support centres (spares and parts) which will require another ₹ 125 crore. This expansion is slated to get commissioned by FY26E.

### Rating and Target Price

- With increasing traction in the international markets, strong domestic demand and introduction of newer products will drive strong profitability growth. We estimate revenue, EBITDA and PAT to grow at ~14.5%, ~21% and ~25% CAGR respectively over FY24-26E. With recovery in margins and ROCE floating above 23% till FY26E and strong tailwinds across entire industrial space, the company will command premium valuations. We value it at 55x FY26E to arrive at a fair value of ₹ 835 per share



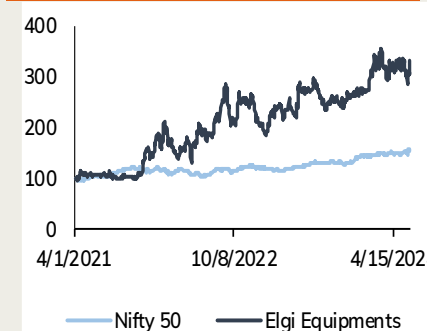
#### Particulars

| Particular            | Amount       |
|-----------------------|--------------|
| Market Capitalization | 21613 Crore  |
| Total Debt (FY24)     | ₹ 509 Crore  |
| Cash & Inv. (FY24)    | 0.0          |
| EV (FY24)             | 20674 Crore  |
| 52 week H/L (₹)       | 714 / 462    |
| Equity capital        | ₹ 31.7 Crore |
| Face value            | ₹ 1          |

#### Shareholding pattern

|          | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|----------|--------|--------|--------|--------|
| Promoter | 31.2   | 31.2   | 31.2   | 31.2   |
| FII      | 29.3   | 28.8   | 29.0   | 29.5   |
| DII      | 4.9    | 4.8    | 4.9    | 5.0    |
| Others   | 34.6   | 35.2   | 34.9   | 34.3   |

#### Price Chart



#### Key risks

- (i) Slowdown in demand (ii) Delay in breakeven and growth in international geographies

#### Research Analyst

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### Key Financial Summary

| Particulars (₹ crore) | FY22    | FY23    | FY24    | 3 Year CAGR (FY22-FY24) | FY25E   | FY26E   | 2 Year CAGR (FY24-FY26E) |
|-----------------------|---------|---------|---------|-------------------------|---------|---------|--------------------------|
| Net Sales             | 2,524.7 | 3,040.7 | 3,220.0 | 12.9%                   | 3,638.6 | 4,220.8 | 14.5%                    |
| EBITDA                | 292.3   | 432.8   | 488.2   | 29.2%                   | 600.4   | 717.5   | 21.2%                    |
| EBITDA Margin (%)     | 11.6    | 14.2    | 15.2    |                         | 16.5    | 17.0    |                          |
| Net Profit            | 177.1   | 262.9   | 309.0   | 32.1%                   | 406.0   | 480.9   | 24.8%                    |
| EPS (₹)               | 5.6     | 8.4     | 9.9     |                         | 12.8    | 15.2    |                          |
| P/ E (x)              | 122.6   | 82.4    | 69.6    |                         | 53.9    | 45.5    |                          |
| RoNW (%)              | 18.5    | 22.0    | 21.3    |                         | 22.2    | 21.2    |                          |
| RoCE (%)              | 18.2    | 21.8    | 22.5    |                         | 23.7    | 24.2    |                          |

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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