

Europe Turnaround and North America momentum to drive growth ...

About the stock: Elgi Equipment (Elgi) manufactures a wide range of air compressors (~91% of revenue) and automotive equipment (~9%).

- 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 ~49% in Q4FY26)

Q4FY26 performance: ELGi Equipment's reported a healthy Q4FY26 performance with consolidated revenue growing 12.1% YoY to ₹1,113 crore, driven by steady demand across key business segments. Operating EBITDA increased 14.4% YoY to ₹173 crore, while operating EBITDA margin expanded ~30 bps YoY to 15.5% supported by better operating leverage and improved product mix. PAT rose strongly by 25.5% YoY to ₹128 crore compared to ₹102 crore in Q4FY25, reflecting improved profitability and efficient cost management.

Investment Rationale:

- **Improving Global Profitability with Multiple Growth Drivers:** ELGi is entering FY27 with strong momentum across its key markets. India continues to see healthy industrial demand, while North America is benefiting from manufacturing reshoring and successful organizational restructuring. At the same time, Europe has completed its cost rationalization program and management expects the region to move from losses in FY26 to breakeven or marginal profitability in FY27. ELGi has already implemented 2.5–3% price increases and remains willing to take additional hikes. Management believes competitive intensity will remain manageable, supporting margin protection despite cost pressures. With FY26 revenue growing 12% YoY further margin improvement from Europe and operating leverage from North America could drive earnings growth ahead of revenue growth.
- **Strong Balance Sheet Supporting Long-Term Market Share Gains:** ELGi continues to generate approximately 100% EBITDA-to-cash conversion and maintains a strong net cash position, providing significant financial flexibility. The company is investing in differentiated technologies such as Demand Match compressors, next-generation in-house motors and a new low-cost compressor platform scheduled for launch in September 2026 to counter Chinese competition. Combined with ongoing digital transformation, inventory optimization and a ₹200 crore growth-oriented capex plan, ELGi is strengthening its competitive position while preserving balance sheet strength, creating a foundation for sustainable market share expansion globally.

Rating and Target Price

- We expect Revenue and PAT to grow at 12.5% and 18.8% CAGR over FY26-FY28E and maintain **Buy** on Elgi with a Target Price of **₹765 (based on 40x P/E on FY28E EPS)**

Key Financial Summary

Particulars (Rs. in crore)	FY23	FY24	FY25	FY26	3 Year CAGR (FY23-FY26)	FY27E	FY28E	2 Year CAGR (FY26-FY28E)
Net Sales	3,040.7	3,217.8	3,510.4	3,950.7	9.1%	4,464.3	5,000.0	12.5%
EBITDA	432.8	486.0	524.9	579.1	10.2%	692.0	810.0	18.3%
EBITDA Margin (%)	14.2	15.1	15.0	14.7		15.5	16.2	
Net Profit	370.8	311.9	350.1	430.2	5.1%	520.4	607.2	18.8%
EPS (₹)	11.7	9.8	11.0	13.6		16.4	19.2	
P/ E (x)	49.6	58.9	52.5	42.7		35.3	30.3	
RoNW (%)	28.0	19.8	18.6	17.6		18.1	18.1	
RoCE (%)	20.4	21.1	21.0	20.2		21.7	21.7	



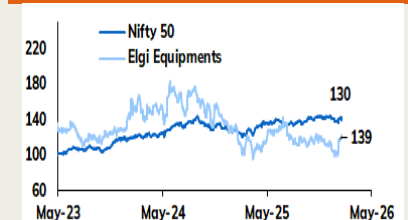
Particulars

Particular	Rs. (in crore)
Market Capitalization	18130
Total Debt (FY26)	533
Cash and Inv (FY26)	807
Enterprise Value	17856
52 week H/L (Rs.)	633/408
Equity capital	31.7
Face value (Rs.)	1

Shareholding pattern

%	Jun-25	Sep-25	Dec-25	Mar-26
Promoter	31.2	31.2	31.2	31.2
FII	27.6	26.1	23.1	22.2
DII	5.2	6.2	8.1	9.1
Others	36.0	36.5	37.6	37.5

Price Chart



Key risks

- Slowdown in demand
- Delay in breakeven and growth in international geographies

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Key result and concall highlights

- ELGi Equipments reported a healthy Q4FY26 performance with consolidated revenue growing 12.1% YoY to ₹1,113 crore, driven by steady demand across key business segments. Operating EBITDA increased 14.4% YoY to ₹173 crore, while operating EBITDA margin expanded ~30 bps YoY to 15.5% supported by better operating leverage and improved product mix. PAT rose strongly by 25.5% YoY to ₹128 crore compared to ₹102 crore in Q4FY25.
- For FY26, the company delivered revenue growth of 12.5% YoY to ₹3,951 crore vs ₹3,510 crore in FY25. Operating EBITDA grew 7.6% YoY to ₹571 crore however, operating EBITDA margin moderated by ~70 bps YoY to 14.4% due to higher employee and input costs during the year. Despite margin moderation, PAT increased 22.8% YoY to ₹430 crore, supported by strong revenue growth, scale benefits and healthy operational execution.
- The Air Compressors segment remained the key growth driver with Q4FY26 revenue growing 12.1% YoY to ₹1,009 crore and segment profit rising 21.0% YoY to ₹151 crore. For FY26, segment revenue increased 12.5% YoY to ₹3,613 crore, while segment profit grew strongly by 23.9% YoY to ₹548 crore.
- The Automotive Equipment segment delivered steady performance with Q4FY26 revenue up 10.6% YoY to ₹104 crore and segment profit increasing 2.7% YoY to ₹15 crore. For FY26, revenue grew 12.3% YoY to ₹339 crore, while segment profit rose 10.7% YoY to ₹37 crore.
- Compressors Business & Demand Outlook: India continues to witness strong enquiry levels across industrial sectors including food processing, engineering, foundry and forging, though order conversion timelines have elongated due to geopolitical uncertainties and Red Sea disruptions. North America delivered strong growth across industrial compressors, portable compressors, Patton's Medical and distribution businesses. Manufacturing reshoring in the U.S. remains a key demand driver.
- India Business; India remains the strongest market with growth across all business verticals. Demand is broad-based rather than concentrated in any single sector, reflecting healthy industrial activity. Railways business remains focused on intercity rolling stock, while metro opportunities are being pursued through a longer qualification process. The company supplies specialized compressors for Indian Navy platforms including INS Vikrant through its JV business, though defense remains a niche opportunity.
- North America business: Company has highlighted All major business verticals are now performing well, prompting management to consider additional GTM interventions to drive the next phase of growth. Tariff-related disruptions have largely stabilized, with effective tariff rates currently around 25%.
- Europe: Management indicated Europe was EBITDA breakeven in Q4FY26 and expects the region to achieve breakeven to marginal profitability in FY27. Growth remains muted due to the Ukraine conflict, energy costs and inflation, but ELGi continues to view Europe as a strategic long-term market with market-share gain opportunities, especially in Germany.
- Product Innovation & Technology: ELGi has completed development and validation of a low-cost compressor platform aimed at competing against Chinese entrants in entry-level markets. India launch is planned for September 2026, followed by global rollout. Vacuum technology remains a long-term strategic initiative under the DVP partnership, with management describing it as a 10–12-year opportunity-building program.

Elgi's In-house motor technology continues to provide cost and innovation advantages, with a new motor platform expected to be launched over the next 12–18 months.

- **Working Capital & Cash Flow:** The company continues to generate approximately 100% EBITDA-to-cash conversion and maintains a strong net cash position. Inventory optimization initiatives have delivered meaningful working-capital benefits. Forecasting accuracy has improved to 60–70%, with management targeting ~90% accuracy over time. Additional inventory reduction opportunities remain in U.S. and Australian distribution operations.
- **Capex & Investments:** FY27 Capex planned at approximately ₹200 crore, comprising: ₹120–130 crore for relocation and expansion of manufacturing facilities. ₹70 crore for regular maintenance and balancing Capex.
- **Key Management Guidance / Outlook:** Q1FY27 growth expected to remain strong, similar to or slightly ahead of FY26 growth levels. Europe expected to turn breakeven/marginally profitable. India and North America expected to remain key growth engines. Commodity inflation remains the biggest near-term risk, but management intends to protect margins through timely pricing actions. Low-cost compressor launch in September 2026 should strengthen competitiveness against Chinese manufacturers.

Financial Summary

Exhibit 1: Profit and loss statement					
	₹ crore				
(Year-end-March)	FY24	FY25	FY26	FY27E	FY28E
Net Sales	3,218	3,510	3,951	4,464	5,000
Other Operating Income	-	-	-	-	-
Total Operating Income	3,218	3,510	3,951	4,464	5,000
% Growth		9.1	12.5	13.0	12.0
Other Income	55.0	57.7	117.8	110.0	115.0
Total Revenue	3,273	3,568	4,069	4,574	5,115
Growth (%)	136.8	9.0	14.0	12.4	11.8
Total Raw Material Costs	1,569	1,717	1,934	2,210	2,465
Employee Expenses	655	683	776	826	925
Other expenses	508	585	662	737	800
Total Operating Expense	2,732	2,986	3,372	3,772	4,190
EBITDA	486	525	579	692	810
Growth (%)		8.0	10.3	19.5	17.1
Interest	29.3	30.4	25.4	15.9	11.4
PBDT	512	552	672	786	914
Depreciation	76.6	76.0	85.8	98.2	110.0
PBT before Exceptional	435.0	476.1	585.7	687.8	803.6
Total Tax	128.3	131.5	147.2	173.5	202.4
PAT before MI	311.9	350.1	430.2	520.4	607.2
Minority Interest	-	-	-	-	-
PAT	311.9	350.1	430.2	520.4	607.2
Growth (%)		12.2	22.9	21.0	16.7
EPS	9.8	11.0	13.6	16.4	19.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					
	₹ crore				
(Year-end-March)	FY24	FY25	FY26	FY27E	FY28E
Profit after Tax	311.9	350.1	430.2	520.4	607.2
Depreciation	76.6	76.0	85.8	98.2	110.0
Interest	29.3	30.4	25.4	15.9	11.4
Cash Flow before WC changes	417.9	456.6	541.4	634.5	728.6
Changes in inventory	(19.9)	13.7	(102.2)	(84.3)	(95.4)
Changes in debtors	(52.4)	(5.3)	(115.5)	(107.8)	(72.4)
Changes in loans & Advances	(0.6)	0.8	(1.4)	(7.7)	(1.6)
Changes in other current assets	203.7	(22.8)	21.5	(21.1)	(16.1)
Net Increase in Current Assets	128.0	(57.9)	(280.6)	(220.9)	(185.5)
Changes in creditors	31.6	(8.7)	122.9	90.8	66.0
Changes in provisions	6.1	21.5	12.4	14.1	10.3
Net Increase in Current Liabilities	25.9	34.8	177.4	159.7	108.5
CF from operations	571.8	433.5	438.2	573.3	651.6
Changes in deferred tax assets	(13.1)	(10.5)	1.4	-	-
(Purchase)/Sale of Fixed Assets	(83.1)	(124.4)	(276.0)	(200.0)	(150.0)
CF from Investing	(108.3)	(146.9)	(372.4)	(103.5)	(150.0)
Dividend and Dividend Tax	(63.3)	(63.2)	(69.5)	(47.5)	(47.5)
CF from Financing	(40.0)	(186.9)	(133.0)	(248.4)	(159.0)
Net Cash flow	423.5	99.7	(67.2)	221.3	342.6
Opening Cash/Cash Equivalent	350.8	774.3	874.0	806.8	1,028.1
Closing Cash/ Cash Equivalent	774.3	874.0	806.8	1,028.1	1,370.7

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					
	₹ crore				
(Year-end-March)	FY24	FY25	FY26	FY27E	FY28E
Equity Capital	31.7	31.7	31.7	31.7	31.7
Reserve and Surplus	1,579	1,834	2,200	2,667	3,227
Total Shareholders funds	1,611	1,866	2,232	2,699	3,259
Minority Interest	-	-	-	-	-
Other Non Current Liabilities	-	-	-	-	-
Total Debt	638.1	577.2	533.5	354.3	254.3
Total Liabilities	2,281	2,467	2,793	3,081	3,541
Gross Block	1,137	1,218	1,411	1,611	1,761
Acc. Depreciation	550.4	626.5	712.3	810.5	920.5
Net Block	586.6	591.5	699.0	800.8	840.8
Capital WIP	9.5	53.0	135.7	135.7	135.7
Total Fixed Assets	596.2	644.5	834.7	936.5	976.5
Non Current Assets	64.7	74.4	178.3	81.8	81.8
Inventory	622.2	608.5	710.7	795.0	890.4
Debtors	603.1	608.4	723.9	831.7	904.1
Loans and Advances	5.1	4.3	5.7	13.4	15.0
Other Current Assets	111.5	134.3	112.8	133.9	150.0
Cash	774	874	807	1,028	1,371
Total Current Assets	2,119	2,277	2,490	2,932	3,460
Current Liabilities	345.4	336.7	459.6	550.4	616.4
Provisions	37.6	59.1	71.5	85.6	95.9
Net Current Assets	1,579	1,702	1,738	2,021	2,440
Total Assets	2,281	2,467	2,793	3,081	3,541

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end-March)	FY24	FY25	FY26	FY27E	FY28E
Per Share Data (Rs.)					
EPS	9.8	11.0	13.6	16.4	19.2
BVS	50.8	58.9	70.4	85.2	102.8
Dividend per share	2.0	2.0	2.2	1.5	1.5
Dividend payout ratio	20.3	18.1	16.2	9.1	7.8
Operating Ratios					
EBITDA Margin	15.1	15.0	14.7	15.5	16.2
PAT Margin	9.7	10.0	10.9	11.7	12.1
Inventory days	70.6	63.3	65.7	65.0	65.0
Debtor days	68.4	63.3	66.9	68.0	66.0
Creditor days	39.2	35.0	42.5	45.0	45.0
Return Ratios					
RoE	19.4	18.8	19.8	19.3	18.6
RoCE	19.7	20.1	22.7	22.4	22.5
RoIC	26.3	28.5	28.4	30.4	33.3
Valuation Ratios					
EV / EBITDA	37.5	34.4	31.2	25.6	21.3
P/E	58.9	52.5	41.6	35.3	30.3
EV / Net Sales	5.7	5.1	4.6	4.0	3.4
Sales / Equity	2.0	1.9	1.8	1.7	1.5
Market Cap / Sales	5.7	5.2	4.7	4.1	3.7
Price to Book Value	11.4	9.9	8.2	6.8	5.6
Turnover Ratios					
Asset turnover	1.4	1.4	1.5	1.4	1.4
Debtors Turnover Ratio	5.6	5.8	5.9	5.7	5.8
Creditors Turnover Ratio	9.8	10.3	9.9	8.8	8.6
Solvency Ratios					
Debt / Equity	0.4	0.3	0.2	0.1	0.1
Current Ratio	3.4	3.4	2.9	2.8	2.7
Quick Ratio	1.8	1.9	1.6	1.5	1.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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