

August 13, 2025

Steady outlook, albeit global uncertainties...

About the stock: Elgi Equipment (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 ~48% in FY25)

Q1FY26 performance: Elgi reported a steady set of numbers for Q1FY26. Revenues grew 8.2% to ₹867 crore, EBITDA grew 6.2% YoY to ₹121 crore restricted by rise in other expenses and employee costs by 10% each YoY. EBITDA margins at 14% down 26 bps YoY. Consequently, PAT for the quarter came in at ₹85.6 crore up 17.6% YoY. PAT margin expanded 72 bps YoY to 9.7%. On a segmental basis, Air compressor (92% of revenue) and Automotive business grew 8% each. EBIT for Air compressor grew 16% and Automotive declined 2.7% on account of drop in margins by 60 bps.

Investment Rationale:

- Healthy growth across regions on back of volume growth:** All regions barring Europe and Australia exhibited reasonable growth backed by pick up in volumes. The company has reported 8% YoY revenue growth backed mostly by volume while some of the gains came in from pricing and currency benefits. Going ahead, the management believes that Australian markets will recover by Q3FY26 onwards while the efforts in Europe will be maintaining the breakeven levels. Going ahead we expect revenues to grow at a CAGR of 10.5% mainly backed by volumes.
- No impact of tariff if it sustains at 25%:** The company is quite confident that they won't be impacted by the initial tariff of 25% and will be able to defend margins. The same will be mitigated by price hikes in the range of 5-10% and remaining via other internal initiatives that they have undertaken. It is also working on to negate the effects of incremental 25% tariff but that will be time and cost consuming process, this step will only come in to effect once the tariff deal is finalised.

Rating and Target Price

- With continued penetration in global markets and recording profits in its key US and European markets, the company is expected to deliver 10.5% and 17.6% sales and PAT CAGR over FY25-27E. This will be backed by improvement in margins to 16.8% in FY27E. We value the company 40x FY27E to arrive at a fair value of ₹620 per share.



Particulars

Particular	Rs. in crore
Market Capitalization	16385
FY25 Gross Debt	491
FY25 Cash	875
Enterprise Value	16001
52 week H/L (Rs.)	752/390
Equity capital	31.7
Face value (Rs.)	1

Shareholding pattern

%	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	31.2	31.2	31.2	31.2
FII	29.4	29.4	29.1	27.6
DII	5.0	5.1	5.0	5.2
Others	34.3	34.3	34.7	36.0

Price Chart



Key risks

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

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Key Financial Summary

Particulars (₹ crore)	FY23	FY24	FY25	2 Year CAGR (FY23-FY25)	FY26E	FY27E	2 Year CAGR (FY25-FY27E)
Net Sales	3,040.7	3,217.8	3,510.4	7.4%	3,826.3	4,285.5	10.5%
EBITDA	432.8	486.0	486.0	6.0%	524.9	585.4	9.8%
EBITDA Margin (%)	14.2	15.1	13.8		13.7	13.7	
Net Profit	177.1	370.8	311.9	32.7%	355.3	397.5	12.9%
EPS (₹)	11.8	10.0	11.2		12.5	15.4	
P/E (x)	42.5	50.1	44.7		39.9	32.5	
RoNW (%)	28.0	19.8	18.6		17.6	18.1	
RoCE (%)	20.4	21.1	21.0		20.2	21.7	

Source: Company, ICICI Direct Research

Key result and concall highlights

- Elgi reported a steady Q1FY26, with 8% revenue growth to ₹867 crore, this was contributed by strong growth momentum in India and Middle East, whereas Europe and Australia were weak. The company saw growth across all geographies except Europe and Australia.
- EBITDA for Q1FY26 came in at ₹121 crore up 6.2% YoY, EBITDA margins down 26 bps YoY to 14%, EBITDA was offset by a 10% YoY increase each in other expenses and employee costs.
- As a result, PAT for Q1FY26 came in at ₹86 crore, up 17.6% YoY. PAT margin expanded 72 bps YoY to 9.7%. PAT growth is on the back of other income which grew 45% YoY to ₹20 crore.
- Europe is economically challenging and where company can improve, there it has identified steps to take to improve situation in Europe. Australia has been weak but now it seems to be coming back. Company managed to stay profitable in Europe, however due to appreciation of Euro, it incurred loss in rupee terms. Company is confident that it will get back to good growth in these two regions.
- Rise in other expenses are due to various measures being taken by the company and company is confident these will help improve profitability going ahead. Rise in employee costs is due to annual increment of 5-6% and the rest is due to rise in headcount.
- The company has clarified that it will remain competitive at US tariff upto 25%. This will be ensured by a 5-10% price increase and the rest 15-20% will be met by various cost reduction measures taken by the company over the past 2-3 years. One of the major cost saving step the company has taken is to produce its own motors and thereby reduce dependence on China. The company has adequate inventory that will last for a few more months to help it maintain competitive position in the US market.
- Elgi has developed a new stabilizer technology, which has received a positive response, the technology will be launched in India in September and then to the rest of the world by April next year.
- Company has also indigenised its vacuum product, the same has been introduced to the market and is growing as per company expectations.
- The company has maintained that it is on track to achieve its long-term guidance of \$450 million revenue.

Financial Summary

Exhibit 1: Profit and loss statement

₹ crore

(Year-end-March)	FY24	FY25	FY26E	FY27E
Net Sales	3,217.8	3,510.4	3,826.3	4,285.5
Other Operating Income	-	-	-	-
Total Operating Income	3,217.8	3,510.4	3,826.3	4,285.5
% Growth	134.9	9.1	9.0	12.0
Other Income	55.0	57.7	70.0	70.0
Total Revenue	3,272.8	3,568.1	3,896.3	4,355.5
Growth (%)	136.8	9.0	9.2	11.8
Total Raw Material Cos	1,568.9	1,717.4	1,894.0	2,108.5
Employee Expenses	654.9	682.8	715.5	792.8
Other expenses	507.9	585.3	631.3	664.3
Total Operating Expens	2,731.8	2,985.5	3,240.9	3,565.5
EBITDA	486.0	524.9	585.4	720.0
Growth (%)	249.3	8.0	11.5	23.0
Interest	29.3	30.4	9.2	4.7
PBDT	511.7	552.1	646.2	785.3
Depreciation	76.6	76.0	114.8	128.6
PBT before Exceptiona	435.0	476.1	531.5	656.7
Total Tax	128.3	131.5	145.1	178.9
PAT before MI	311.9	350.1	392.3	483.8
Minority Interest	-	-	-	-
PAT	317.1	355.3	397.5	489.0
Growth (%)	328.7	12.0	11.9	23.0
EPS	10.0	11.2	12.5	15.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement

₹ crore

(Year-end-March)	FY24	FY25	FY26E	FY27E
Profit after Tax	317.1	355.3	397.5	489.0
Depreciation	76.6	76.0	114.8	128.6
Interest	29.3	30.4	9.2	4.7
Cash Flow before WC chang	423.1	461.7	521.5	622.2
Changes in inventory	29.3	(52.1)	(56.3)	(81.8)
Changes in debtors	(110.5)	(60.1)	(64.9)	(94.3)
Changes in loans & Advance	(5.1)	(0.9)	(0.9)	(1.4)
Changes in other current ass	(52.1)	(13.5)	(14.5)	(21.1)
Net Increase in Current Asse	(138.4)	(126.6)	(136.7)	(198.6)
Changes in creditors	82.9	36.1	39.0	56.6
Changes in provisions	4.3	3.2	3.5	5.1
Net Increase in Current Liabi	91.4	56.9	61.4	89.3
CF from operations	376.1	392.0	446.2	512.8
Changes in deferred tax asse	-	-	-	-
(Purchase)/Sale of Fixed Asse	(75.0)	(75.0)	(75.0)	(75.0)
CF from Investing	(75.0)	(75.0)	(75.0)	(75.0)
Dividend and Dividend Tax	(47.5)	(47.5)	(47.5)	(47.5)
CF from Financing	(191.5)	(168.0)	(156.7)	(152.2)
Net Cash flow	109.7	149.1	214.5	285.6
Opening Cash/Cash Equival	535.8	645.5	794.6	1,009.1
Closing Cash/ Cash Equival	645.5	794.6	1,009.1	1,294.7

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

₹ crore

(Year-end-March)	FY24	FY25	FY26E	FY27E
Equity Capital	31.7	31.7	31.7	31.7
Reserve and Surplus	1,571.9	1,879.6	2,229.6	2,671.0
Total Shareholders funds	1,603.6	1,911.3	2,261.3	2,702.7
Minority Interest	-	-	-	-
Other Non Current Liabili	48.0	48.0	48.0	48.0
Total Debt	394.1	304.1	204.1	104.1
Total Liabilities	2,085.4	2,303.1	2,553.1	2,894.5
Gross Block	1,119.1	1,194.1	1,269.1	1,344.1
Acc: Depreciation	536.6	641.9	756.7	885.3
Net Block	582.5	552.2	512.4	458.8
Capital WIP	2.8	2.8	2.8	2.8
Total Fixed Assets	585.3	555.0	515.2	461.6
Non Current Assets	51.1	51.1	51.1	51.1
Inventory	573.0	625.1	681.4	763.2
Debtors	661.2	721.3	786.2	880.6
Loans and Advances	9.7	10.5	11.5	12.9
Other Current Assets	148.0	161.5	176.0	197.1
Cash	645.5	794.6	1,009.1	1,294.7
Total Current Assets	2,037.4	2,313.0	2,664.2	3,148.5
Current Liabilities	396.7	432.8	471.7	528.3
Provisions	35.7	39.0	42.5	47.6
Net Current Assets	1,411.9	1,630.7	1,920.4	2,315.4
Total Assets	2,085.4	2,303.1	2,553.1	2,894.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end-March)	FY24	FY25	FY26E	FY27E
Per Share Data (Rs.)				
EPS	10.0	11.2	12.5	15.4
BVS	50.6	60.3	71.4	85.3
Dividend per share	1.5	1.5	1.5	1.5
Dividend payout ratio	15.0	13.4	12.0	9.7
Operating Ratios				
EBITDA Margin	15.1	15.0	15.3	16.8
PAT Margin	9.9	10.1	10.4	11.4
Inventory days	65.0	65.0	65.0	65.0
Debtor days	75.0	75.0	75.0	75.0
Creditor days	45.0	45.0	45.0	45.0
Return Ratios				
RoE	19.8	18.6	17.6	18.1
RoCE	21.1	21.0	20.2	21.7
RoIC	26.4	27.9	28.3	33.8
Valuation Ratios				
EV / EBITDA	32.1	29.3	25.7	20.4
P/E	50.1	44.7	39.9	32.5
EV / Net Sales	4.9	4.4	3.9	3.4
Sales / Equity	2.0	1.8	1.7	1.6
Market Cap / Sales	4.9	4.5	4.1	3.7
Price to Book Value	9.9	8.3	7.0	5.9
Turnover Ratios				
Asset turnover	1.5	1.5	1.4	1.4
Debtors Turnover Ratio	5.3	5.1	5.1	5.1
Creditors Turnover Ratio	9.1	8.5	8.5	8.6
Solvency Ratios				
Debt / Equity	0.2	0.2	0.1	0.0
Current Ratio	3.2	3.2	3.2	3.2
Quick Ratio	1.9	1.9	1.9	1.9

Source: Company, ICICI Direct Research

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