CMP: ₹610 | Target ₹ 740 (21%) | Target Period: 12 months | BUY

August 16, 2026

Healthy growth momentum; margin expansion 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 ~48% in FY25).

Q1FY27 performance: Elgi Equipments reported healthy Q1FY27 performance, with consolidated revenue rising 22.6% YoY to ₹1,062 crore, supported by resilient growth in India and the Americas, while Europe and Australia remained subdued. Despite the gross-margin pressure, operating leverage supported EBITDA growth of ~28% YoY to ₹155 crore, with EBITDA margin expanding 64bps YoY to 14.6%. PAT increased 20.7% YoY to ₹98 crore.

Investment Rationale:

- **Strong volume growth with improving profitability provides earnings visibility:** Elgi delivered 23% YoY revenue growth to ₹1,062 crore in Q1FY27, with EBITDA margin improving to 14.6% from 14.0%. Growth was broad-based, with India revenue increasing 28%, North America 37% and Europe 21%, while the India/ROW revenue mix remained broadly balanced. Importantly, growth was largely volume-led, providing better quality of topline expansion. Management expects margin improvement to continue through price corrections, cost reduction, re-engineering and fixed-cost rationalisation, with the benefit of pricing actions expected towards the end of Q2 and more fully in Q3FY27. This provides scope for earnings acceleration even if topline growth moderates from the strong Q1 base.
- **Product innovation and aftermarket strengthen long-term growth potential:** Elgi's Demand Match technology has seen strong adoption in India since its September 2025 launch and is now being rolled out globally, with validation machines installed across major geographies and positive customer feedback. The company is also entering the Tier-4 low-cost compressor segment, with products validated, first orders received and formal launch scheduled for September 2026. Alongside this, aftermarket contributes around 28–30% of India revenue, providing a recurring and relatively profitable revenue stream. With ~80% of the compressor market prioritising energy efficiency and maintenance cost over price, Elgi's differentiated technology-led proposition, combined with aftermarket penetration, provides scope for sustained market-share gains and margin improvement.

Rating and Target Price: We expect Revenue and PAT to grow at 12.5% and 17% CAGR over FY26-FY28E. We recommend **BUY** on **Elgi Equipments** with a target price of **₹740 per share (based on 40x FY28E EPS).**

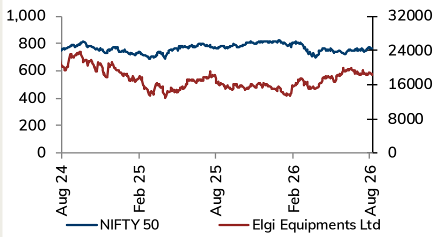
Particulars

Particulars	Rs. (in crore)
Market Capitalization	19311
Total Debt (FY26)	533
Cash and Inv. (FY26)	807
Enterprise Value	19037
52-week H/L (Rs.)	634/408
Equity capital	31.7
Face value (Rs.)	1

Shareholding pattern

%	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	31.2	31.2	31.2	31.2
FII	26.1	23.1	22.2	21.9
DII	6.2	8.1	9.1	10.1
Others	36.5	37.6	37.5	36.8

Price Chart



Key risks

(i) Slowdown in demand;

(ii)) Delay in breakeven and growth in international geographies

Research Analyst

Chirag J Shah
shah.chirag@icicisecurities.com

Dilip Pandey
dilip.pandey@icicisecurities.com

Gourav Aggarwal
gourav.aggarwal@icicisecurities.com

Key Financial Summary

Particulars (Rs. in crore)	FY24	FY25	FY26	2Year CAGR (FY24-FY26)	FY27E	FY28E	2 Year CAGR (FY26-FY28E)
Net Sales	3,217.8	3,510.4	3,950.7	10.8%	4,464.3	5,000.0	12.5%
EBITDA	486.0	524.9	579.1	9.2%	692.0	785.0	16.4%
EBITDA Margin (%)	15.1	15.0	14.7		15.5	15.7	
Net Profit	311.9	350.1	430.2	17.4%	520.4	588.4	17.0%
EPS (₹)	9.8	11.0	13.6		16.4	18.6	
P/ E (x)	62.0	55.2	44.9		37.2	32.9	
RoNW (%)	19.4	18.8	19.8		19.4	18.3	
RoCE (%)	19.7	20.1	22.7		22.5	22.0	

Source: Company, ICICI Direct Research.

Q1FY27 key results highlights

- **Financial Performance**:
    - Elgi Equipments reported healthy Q1FY27 performance, with consolidated revenue rising 22.6% YoY to ₹1,062 crore, supported by resilient growth in India and the Americas, while Europe and Australia remained subdued. GPM declined 196bps YoY to 50.2% as material costs increased to 49.8% of revenue vs 47.8%.
    - Despite the gross-margin pressure, operating leverage supported EBITDA growth of ~28% YoY to ₹155 crore, with EBITDA margin expanding 64bps YoY to 14.6%. PAT increased 20.7% YoY to ₹98 crore.
    - Segmentally, Air Compressors revenue grew 22.9% YoY to ₹982 crore, with EBIT up 27% and margin improving to 14.4% (+46 bps), while Automotive Equipment revenue rose 17.8% to ₹80 crore, though EBIT margin declined to 4.8% from 5.3%.
- **Management commentary:**
    - India standalone revenue grew 28% YoY, led by broad-based growth across industrial, portable, aftermarket and vacuum businesses. Management highlighted strong traction in EV, renewable energy and semiconductor ecosystems.
    - North America grew 37% YoY and Europe 21% YoY, while Australia grew ~17%; overall growth was broad-based across geographies.
    - Australia remained relatively muted due to challenges in service/distribution and is expected to recover by Q3/Q4. Europe remains focused on achieving sustainable profitability, with plans to expand into Germany and Eastern Europe. North America is expected to maintain its momentum.
    - Growth was primarily volume-driven, while enquiries remain strong; however, the gestation period for finalisation of orders remains longer than normal.
    - Aftermarket remained an important profitability driver, contributing around 28–30% of India revenue and ~17-20% globally including parts/service.
    - Raw material costs increased 5–6% vs 3–4% initially anticipated, with management having prepared for a potential 9% increase. Higher material costs, tariffs and product mix impacted Q1 contribution.
    - Demand Match, launched in September 2025, has seen strong market acceptance and contributed meaningfully to India growth. The technology is being rolled out globally in FY27.
    - Elgi has validated its new Tier-4 low-cost compressor range, received its first orders and is targeting a formal launch in September 2026. Management expects only marginal revenue contribution in FY27 but sees the segment becoming a meaningful growth opportunity over the next few years.
    - **Guidance:** Management expects margins to improve going forward, with 18% EBITDA margin targeted by FY31, assuming stable tariffs. Cost reduction, re-engineering, insourcing and price corrections are expected to support the improvement.

Financial summary

Exhibit 1: Profit and loss statement (₹ crore)

(Year-end-March)	FY25	FY26	FY27E	FY28E
Net Sales	**3,510**	**3,951**	**4,464**	**5,000**
Other Operating Income	-	-	-	-
Total Operating Income	3,510	3,951	4,464	5,000
% Growth	9.1	12.5	13.0	12.0
Other Income	57.7	117.8	110.0	115.0
Total Revenue	3,568	4,069	4,574	5,115
Growth (%)	9.0	14.0	12.4	11.8
Total Raw Material Costs	1,717	1,934	2,210	2,465
Employee Expenses	683	776	826	925
Other expenses	585	662	737	825
Total Operating Expense	2,986	3,372	3,772	4,215
EBITDA	**525**	**579**	**692**	**785**
Growth (%)	8	10	19	13
Interest	30	25	16	11
PBDT	552	672	786	889
Depreciation	76	86	98	110
PBT before Exceptional	476	586	688	779
Total Tax	132	147	173	196
PAT before MI	350	430	520	588
Minority Interest	-	-	-	-
PAT	**350**	**430**	**520**	**588**
Growth (%)	12.2	22.9	21.0	13.1
EPS	11.0	13.6	16.4	18.6

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement (₹ crore)

(Year-end-March)	FY25	FY26	FY27E	FY28E
Profit after Tax	350	430	520	588
Depreciation	76	86	98	110
Interest	30	25	16	11
Cash Flow before WC changes	457	541	635	710
Changes in inventory	14	(102)	(121)	(100)
Changes in debtors	(5)	(116)	(108)	(72)
Changes in loans & Advances	1	(1)	(17)	(3)
Changes in other current assets	(23)	22	(21)	(16)
Net Increase in Current Assets	(58)	(281)	(267)	(191)
Changes in creditors	(9)	123	91	66
Changes in provisions	22	12	14	10
Net Increase in Current Liabilities	35	177	160	108
CF from operations	**433**	**438**	**528**	**627**
Changes in deferred tax assets	(10)	1	-	-
(Purchase)/Sale of Fixed Assets	(124)	(276)	(200)	(150)
CF from Investing	**(147)**	**(372)**	**(104)**	**(150)**
Dividend and Dividend Tax	(63)	(70)	(63)	(63)
CF from Financing	**(187)**	**(133)**	**(259)**	**(175)**
Net Cash flow	100	(67)	165	303
Opening Cash/Cash Equivalent	774	874	807	972
Closing Cash/ Cash Equivalent	**874**	**807**	**972**	**1,275**

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet (₹ crore)

(Year-end-March)	FY25	FY26	FY27E	FY28E
Equity Capital	31.7	31.7	31.7	31.7
Reserve and Surplus	1,834	2,200	2,657	3,182
Total Shareholders' funds	1,866	2,232	2,689	3,214
Minority Interest	-	-	-	-
Other Non-Current Liabilities	-	-	-	-
Total Debt	577	534	354	254
Total Liabilities	**2,467**	**2,793**	**3,071**	**3,496**
Gross Block	1,218	1,411	1,611	1,761
Acc: Depreciation	626	712	810	920
Net Block	592	699	801	841
Capital WIP	53	136	136	136
Total Fixed Assets	645	835	936	976
Non-Current Assets	74	178	82	82
Inventory	609	711	832	932
Debtors	608	724	832	904
Loans and Advances	4	6	22	25
Other Current Assets	134	113	134	150
Cash	874	807	972	1,275
Total Current Assets	2,277	2,490	2,922	3,415
Current Liabilities	337	460	550	616
Provisions	59	72	86	96
Net Current Assets	1,702	1,738	2,010	2,395
Total Assets	**2,467**	**2,793**	**3,071**	**3,496**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end-March)	FY25	FY26	FY27E	FY28E
Per Share Data (Rs.)				
EPS	11.0	13.6	16.4	18.6
BVS	58.9	70.4	84.8	101.4
Dividend per share	2.0	2.2	2.0	2.0
Dvidend payout ratio	18.1	16.2	12.2	10.8
Operating Ratios				
EBITDA Margin	15.0	14.7	15.5	15.7
PAT Margin	10.0	10.9	11.7	11.8
Inventory days	63.3	65.7	68.0	68.0
Debtor days	63.3	66.9	68.0	66.0
Creditor days	35.0	42.5	45.0	45.0
Return Ratios				
RoE	18.8	19.8	19.4	18.3
RoCE	20.1	22.7	22.5	22.0
RoIC	28.5	28.4	29.7	31.3
Valuation Ratios				
EV / EBITDA	36.2	32.9	27.0	23.3
P/E	55.2	43.8	37.2	32.9
EV / Net Sales	5.4	4.8	4.2	3.7
Sales / Equity	1.9	1.8	1.7	1.6
Market Cap / Sales	5.5	4.9	4.3	3.9
Price to Book Value	10.4	8.7	7.2	6.0
Turnover Ratios				
Asset turnover	1.4	1.5	1.4	1.4
Debtors Turnover Ratio	5.8	5.9	5.7	5.8
Creditors Turnover Ratio	10.3	9.9	8.8	8.6
Solvency Ratios				
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	3.4	2.9	2.8	2.8
Quick Ratio	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%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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