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Steady outlook, albeit global uncertainties...

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)

Q2FY26 performance: Elgi reported a decent set of numbers with amid US tariff for Q2FY26. Revenues grew 11.4% to ₹968 crore. EBITDA declined 1.2% YoY to ₹140 crore. EBITDA margins at 14.5% down 184 bps YoY (+50 QoQ). Consequently, PAT for the quarter came in at ₹121 crore up 28% YoY on high other income. On a segmental basis, Air compressor (91% of revenue) and Automotive (9%) business grew 12% and 9%. EBIT for Air compressors and Automotive grew 28% and 6.4%. Air compressors margins expanded by 230 bps to 17.5%.

Investment Rationale:

- Healthy growth across regions on back of volume growth:** All regions barring Europe exhibited reasonable growth backed by pick up in volumes. The company has reported 11% YoY revenue growth backed mostly by volume while some of the gains came in from pricing and currency benefits. Going ahead, the management is working on strategy to accelerate growth in the USA and taking efforts in Europe will be to reach breakeven levels. Going ahead we expect revenues to grow at a CAGR of 11.2% mainly backed by volumes.
- Well prepared to mitigate tariff impact:** The company is taking strategic measures to mitigate US tariffs impact on the company over FY27E and defend margins. The same will be mitigated by material cost optimization overhead reductions and strategic price increases. The company expects no negative impact on consolidated profitability for 27E(had no measures been taken by the company, the total impact of tariff would have been \$9 million on FY27 financials). Additionally, if tariffs are reduced to 25% as being discussed, the company expects a gain of \$3 million in EBITDA, providing meaningful upside to margins. We expect PAT CAGR of 17.4% over FY25-27E

Rating and Target Price

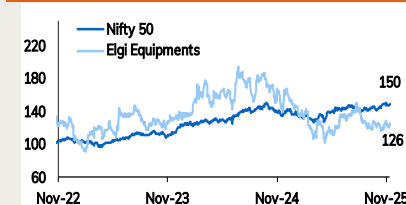
- With continued penetration in global markets and recording profits in its key US and European markets, the company is expected to deliver 11% and 17.4% sales and PAT CAGR over FY25-27E. This will be backed by improvement in margins to 16.8% in FY27E. We value the company 40x FY27E to arrive at a fair value of ₹610 per share.

**Particulars**

Particular	Rs. (in crore)
Market Capitalization	15661
Total Debt (H1FY26)	425
Cash and Inv (H1FY26)	812
Enterprise Value	15275
52 week H/L (Rs.)	674/390
Equity capital	31.7
Face value (Rs.)	1

Shareholding pattern

%	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	31.2	31.2	31.2	31.2
FII	29.4	29.1	27.6	26.1
DII	5.1	5.0	5.2	6.2
Others	34.3	34.7	36.0	36.5

Price Chart**Key risks**

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

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Key Financial Summary

Particulars (Rs. in 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%	3,879.0	4,344.5	11.2%
EBITDA	432.8	486.0	524.9	10.1%	593.5	729.9	17.9%
EBITDA Margin (%)	14.2	15.1	15.0		15.3	16.8	
Net Profit	370.8	311.9	350.1	-2.8%	390.1	482.7	17.4%
EPS (₹)	11.7	9.8	11.0		12.3	15.2	
P/ E (x)	42.8	50.9	45.4		40.7	32.9	
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 Q2FY26, with 11.4% revenue growth to ₹968 crore, this was contributed by growth momentum in India, North America, Australia and Middle East, whereas Europe and South East Asia were weak.
- EBITDA for Q2FY26 came in at ₹140 crore decline of 1.2% YoY, EBITDA margins down 184 bps YoY to 14.5%, EBITDA margin was impacted by a 15% YoY increase in employee costs and 13% in Other Expense.
- As a result, Adj. PAT for Q2FY26 came in flat YoY. Company has an exceptional gain on sale of property in USA which led to PAT growth of 28% YoY to ₹121 crore.
- Rise in other expenses are due to various initiatives being taken by the company. The company is spending 1-1.5% of EBITDA on special initiatives to build foundational capabilities in finance, IT and HR. Rise in employee costs is due a) annual increment of 6%; b) exchange rate impacts from Euro/USD of 4%, c) from headcount additions of 3%.
- Company has measures to fully absorb the impact of US tariff estimated at ~\$9 million at EBITDA level through a combination of material cost optimization, overhead reductions and strategic price increases. Thus, company expects no negative impact on consolidated profitability for FY26-27 if US tariff remains unaltered. Additionally, if tariffs are reduced to 25% as being discussed, the company stands to gain an incremental \$3 million in EBITDA, providing meaningful upside to margins.
- The company is implementing cost reduction initiatives in Europe that will improve bottom line by approximately €1 million through reduction in headcount, though there will be initial exit/resettlement costs. Beyond cost cuts, the company is fundamentally resetting its go-to-market strategy, moving from a pure distributor model to a hybrid direct-channel approach to increase customer touchpoints and accelerate market share gains from current 3-4% to around ~6-7%.
- The company is developing low-price compressors to compete with Chinese imports. These are currently undergoing field validation, with plans to launch them by 1st April 2026 or within Q1 of FY27.
- Going ahead, the company aims to achieve EBITDA margins of 16%, Invest ₹600 crore over 5 years, with ₹250 crores will be invested in the next 2-3 years.

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end-March)	FY24	FY25	FY26E	FY27E
Net Sales	3,217.8	3,510.4	3,879.0	4,344.5
Other Operating Income	-	-	-	-
Total Operating Income	3,217.8	3,510.4	3,879.0	4,344.5
% Growth		9.1	10.5	12.0
Other Income	55.0	57.7	70.0	70.0
Total Revenue	3,272.8	3,568.1	3,949.0	4,414.5
Growth (%)	136.8	9.0	10.7	11.8
Total Raw Material Costs	1,568.9	1,717.4	1,920.1	2,137.5
Employee Expenses	654.9	682.8	725.4	803.7
Other expenses	507.9	585.3	640.0	673.4
Total Operating Expense	2,731.8	2,985.5	3,285.5	3,614.6
EBITDA	486.0	524.9	593.5	729.9
Growth (%)		8.0	13.1	23.0
Interest	29.3	30.4	18.8	14.3
PBDT	511.7	552.1	644.7	785.6
Depreciation	76.6	76.0	116.4	130.3
PBT before Exceptional	435.0	476.1	528.3	655.2
Total Tax	128.3	131.5	144.3	178.5
PAT before MI	311.9	350.1	390.1	482.7
Minority Interest	-	-	-	-
PAT	311.9	350.1	390.1	482.7
Growth (%)		12.2	11.4	23.8
EPS	9.8	11.0	12.3	15.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end-March)	FY24	FY25	FY26E	FY27E
Profit after Tax	311.9	350.1	390.1	482.7
Depreciation	76.6	76.0	116.4	130.3
Interest	29.3	30.4	18.8	14.3
Cash Flow before WC changes	417.9	456.6	525.2	627.3
Changes in inventory	(19.9)	13.7	(82.3)	(82.9)
Changes in debtors	(52.4)	(5.3)	(188.7)	(95.6)
Changes in loans & Advances	(0.6)	0.8	(7.3)	(1.4)
Changes in other current assets	203.7	(22.8)	(44.1)	(21.4)
Net Increase in Current Assets	128.0	(57.9)	(322.4)	(201.3)
Changes in creditors	31.6	(8.7)	141.5	57.4
Changes in provisions	6.1	21.5	24.8	10.1
Net Increase in Current Liabilities	25.9	34.8	223.8	95.4
CF from operations	571.8	433.5	426.6	521.4
Changes in deferred tax assets	(13.1)	(10.5)	-	-
(Purchase)/Sale of Fixed Assets	(83.1)	(124.4)	(75.0)	(75.0)
CF from Investing	(108.3)	(146.9)	(75.0)	(75.0)
Dividend and Dividend Tax	(63.3)	(63.2)	(47.5)	(47.5)
CF from Financing	(40.0)	(186.9)	(226.2)	(161.8)
Net Cash flow	423.5	99.7	125.5	284.6
Opening Cash/Cash Equivalent	350.8	774.3	874.0	999.4
Closing Cash/ Cash Equivalent	774.3	874.0	999.4	1,284.0

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	1,579.4	1,833.9	2,176.3	2,611.5
Total Shareholders funds	1,611.1	1,865.6	2,208.0	2,643.1
Minority Interest	-	-	-	-
Other Non Current Liabilities	-	-	-	-
Total Debt	638.1	577.2	417.5	317.5
Total Liabilities	2,281.1	2,466.6	2,649.3	2,984.4
Gross Block	1,137.1	1,218.0	1,293.0	1,368.0
Acc: Depreciation	550.4	626.5	742.8	873.2
Net Block	586.6	591.5	550.1	494.8
Capital WIP	9.5	53.0	53.2	53.2
Total Fixed Assets	596.2	644.5	603.3	548.0
Non Current Assets	64.7	74.4	74.4	74.4
Inventory	622.2	608.5	690.8	773.7
Debtors	603.1	608.4	797.1	892.7
Loans and Advances	5.1	4.3	11.6	13.0
Other Current Assets	111.5	134.3	178.4	199.8
Cash	774.3	874.0	999.4	1,284.0
Total Current Assets	2,119.0	2,276.6	2,724.4	3,210.3
Current Liabilities	345.4	336.7	478.2	535.6
Provisions	37.6	59.1	83.9	94.0
Net Current Assets	1,579.2	1,702.0	1,926.0	2,316.5
Total Assets	2,281.1	2,466.6	2,649.3	2,984.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end-March)	FY24	FY25	FY26E	FY27E
Per Share Data (Rs.)				
EPS	9.8	11.0	12.3	15.2
BVS	50.8	58.9	69.7	83.4
Dividend per share	2.0	2.0	1.5	1.5
Dividend payout ratio	20.3	18.1	12.2	9.8
Operating Ratios				
EBITDA Margin	15.1	15.0	15.3	16.8
PAT Margin	9.7	10.0	10.1	11.1
Inventory days	70.6	63.3	65.0	65.0
Debtor days	68.4	63.3	75.0	75.0
Creditor days	39.2	35.0	45.0	45.0
Return Ratios				
RoE	19.4	18.8	17.7	18.3
RoCE	19.7	20.1	19.8	21.4
RoIC	26.3	28.5	28.3	34.0
Valuation Ratios				
EV / EBITDA	32.3	29.6	25.7	20.4
P/E	50.9	45.4	40.7	32.9
EV / Net Sales	4.9	4.4	3.9	3.4
Sales / Equity	2.0	1.9	1.8	1.6
Market Cap / Sales	4.9	4.5	4.1	3.7
Price to Book Value	9.9	8.5	7.2	6.0
Turnover Ratios				
Asset turnover	1.4	1.4	1.4	1.4
Debtors Turnover Ratio	5.6	5.8	5.5	5.1
Creditors Turnover Ratio	9.8	10.3	9.5	8.6
Solvency Ratios				
Debt / Equity	0.4	0.3	0.2	0.1
Current Ratio	3.4	3.4	3.0	3.0
Quick Ratio	1.8	1.9	1.7	1.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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