

## Strong all-round performance continues...

Elgi Equipments (Elgi) reported a strong Q4FY21 with consolidated revenue up 34.3% YoY to ₹ 610.6 crore vs. I-direct estimate of ₹ 548.8 crore. Standalone revenue (domestic & direct exports compressor) grew by a robust 57.5% YoY to ₹ 392.0 crore (~64% of consolidated topline) amid low base led by better demand in domestic market and robust exports while the international compressor business came in almost flat at ₹ 167.5 crore, YoY (contributing ~27% of consolidated topline), the automotive segment revenue rebounded with ₹ 34.4% growth to ₹ 50.5 crore, YoY (~9% of revenue). EBITDA margins improved significantly by 180 bps QoQ to 13% in Q4FY21 (vs. our estimate of 11.4%) primarily due to better revenue booking and controlled operating expenses and demand sustained in key geographies. Consequently, absolute EBITDA trebled to ₹ 79.2 crore YoY (vs. our estimate of ₹ 62.8 crore). PAT came in at ₹ 43.4 crore, up 25.3% QoQ partly aided by higher other income.

## India business seeing decent traction amid economic recovery

Elgi's standalone air compressor (domestic & direct exports compressor) grew 57.5% YoY to ₹ 392.0 crore (~64% of consolidated topline). Pure domestic air compressor sales are estimated to have grown at more than 36% YoY (contributing ~55% to overall air compressor sale). Elgi is on track in its strategy to optimise employee cost and primarily in India business. Its disrupted AB series oil free compressor is gaining good traction in India and abroad as economies gather pace worldwide. After-market (~20-25% to India topline), continues to see strong traction across geographies. For FY21, consolidated debt has reduced by ₹ 20 crore to ₹ 370 crore YoY. While working capital remains stable, cash position remains strong.

## Strong international performance; to drive incremental growth

In Q4FY21, air compressor international sales (including exports from India) is estimated to have contributed ~45% to air compressor sales in Q4FY21. It continues to perform well in key international markets led by Australia, US, Europe while South East Asia and Gulf are expected to rebound gradually. Margins are expected to further improve due to ramp-up in international business, optimisation of operating cost leading to incremental revenue, future growth and positive operating leverage. Also, Elgi is expected to resume its strategic investment initiatives in Europe from FY22E onwards.

## Valuation & Outlook

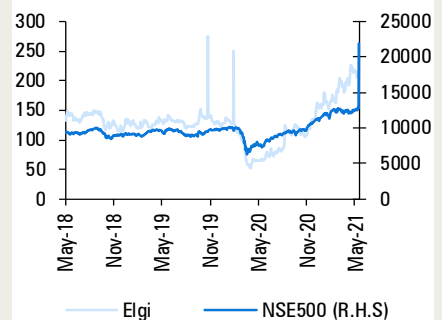
Going ahead, further traction in international market, new products like oil free compressors (AB series) would aid growth while India business has started seeing good traction and would further aid topline. Also, its strategy on cost reduction and focus on operating cash business would help deal with working capital, debt reduction and liquidity situation. We expect revenue, EBITDA CAGR of 14%, 38.4%, respectively, in FY20-23E backed by international growth and positive operating leverage. We revise our target price to ₹ 260 (earlier ₹ 210), 40x FY23 EPS of ₹ 6.5 and maintain **BUY** rating.



### Particulars

Particular	Amount
Market Capitalization	₹ 6814 Crore
Total Debt (FY21)	₹ 370 Crore
Cash & Inv. (FY21)	₹ 262 Crore
EV (FY21)	₹ 6921 Crore
52 week H/L (₹)	244 / 62
Equity capital	₹ 31.7 Crore
Face value	₹ 1

### Price Performance



### Key risk to our call

- Uncertainty in global markets, non-profitable or unwanted international expansions and volatile commodity prices could hurt Elgi's long term business expansion goals
- Further headwinds in India business would affect revenues while failure to reduce operating cost could negatively affect its performance.

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY20-23E)
Revenue	1,863.5	1,829.4	1,924.1	2,241.5	2,712.2	14.0%
EBITDA	191.8	133.9	215.7	255.5	355.3	38.4%
EBITDA Margin (%)	10.3	7.3	11.2	11.4	13.1	
Net Profit	103.1	42.6	102.5	135.1	204.6	68.7%
EPS (₹)	3.3	1.3	3.2	4.3	6.5	
P/E (x)	66.1	160.0	66.5	50.4	33.3	
EV/EBITDA (x)	36.0	53.1	32.1	27.1	19.3	
RoCE (%)	13.8	6.5	11.7	13.7	18.7	
RoE (%)	13.4	5.5	11.8	14.8	19.2	
Growth		11.81	5.2	16.5	21.0	

**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	610.6	548.8	454.7	34.3	547.1	11.6	Standalone revenue grew 57.5% YoY while International business came in almost flat YoY
Other Income	5.8	6.7	0.7	702.8	6.7	-13.9	
Total Revenue	616.4	555.5	455.4	35.3	553.8	11.3	
Raw material cost	333.6	296.0	247.5	36.2	294.8	14.9	
Employee Expenses	112.3	109.0	102.1	10.1	110.8	1.4	People cost is expected to normalise at current Measures to optimise operating costs which is likely to normalise as percentage of sales
Total Other expenses	85.5	81.0	78.1	9.5	80.0	6.8	
Operating Profit (EBITDA)	79.2	62.8	27.0	192.7	61.5	28.8	
EBITDA Margins	13.0	11.4	5.9		11.2		
Interest	3.2	3.2	4.1	-23.0	3.2	-0.5	
Depreciation	19.6	19.7	17.5	12.1	19.1	3.0	
Total Tax	19.4	11.7	5.0	288.0	11.1	74.2	
PAT	43.4	35.0	1.1	4,025.2	34.6	25.3	

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	
<b>Revenue (Segment-wise)</b>	610.6	548.8	454.7	34.3	547.1	11.6	
Air Compressors	560.1	498.1	417.2	34.3	498.9	12.3	Positive surprise with gradual traction in domestic business and strong incremental growth in international market
% of Sales	92%	91%	92%		91%		
Automotive Equipments	50.5	50.7	37.5	34.4	48.2	4.7	Automotive space also rebounded sharply in line with revival in auto sales
% of Sales	8%	9%	8%		9%		
<b>EBT Margin</b>							
Air Compressors	56.2	39.5	3.0	1,780.5	39.5	42.4	
EBT Margin	10.0%	7.9%	0.7%		7.9%		
% of EBT	90.5	85.7	48.8		86.0		
Automotive Equipments	5.9	6.6	3.1	88.9	6.4	-7.9	
EBT Margin	11.7%	13.0%	8.3%		13.3%		
% of EBT	9.5	14.3	51.2		14.0		

Source: Company, ICICI Direct Research

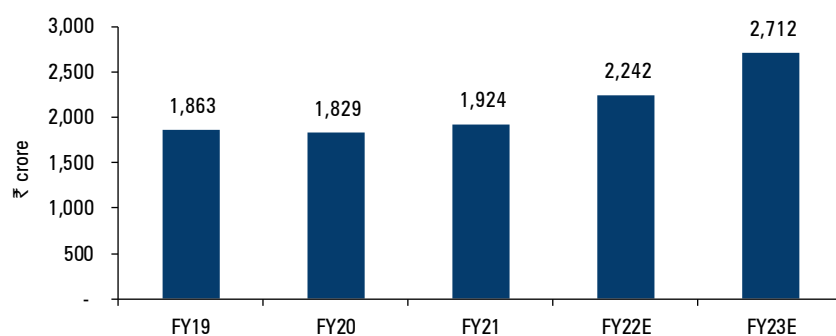
**Exhibit 2: Change in estimates**

	FY20	FY21	FY22E		%	FY23E		%
₹ crore			Old	New	Change	Old	New	Change
Revenue	1,829.4	1,924.1	2,129.7	2,241.5	5.3	2,587.6	2,712.2	4.8
EBITDA	133.9	215.7	238.5	255.5	7.1	328.6	355.3	8.1
EBITDA margin (%)	7.3	11.2	11.2	11.4	20 bps	12.7	13.1	40 bps
PAT	42.6	102.5	129.3	135.1	4.5	191.6	204.6	6.8
EPS (₹)	1.3	3.2	4.1	4.3	4.0	6.0	6.5	7.6

Source: Company, ICICI Direct Research

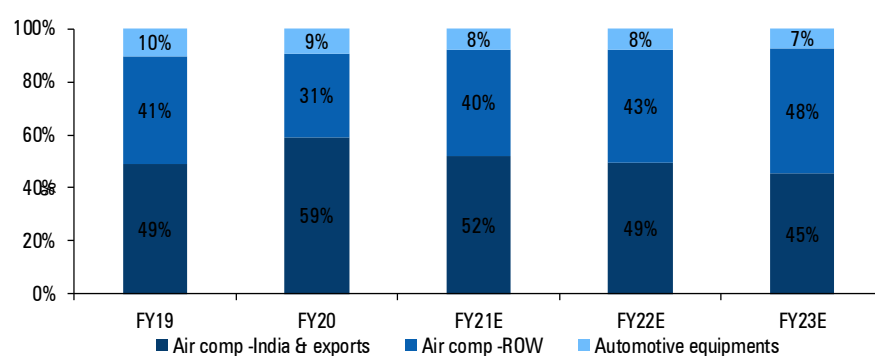
## Financial story in charts

**Exhibit 3: Revenue trend**



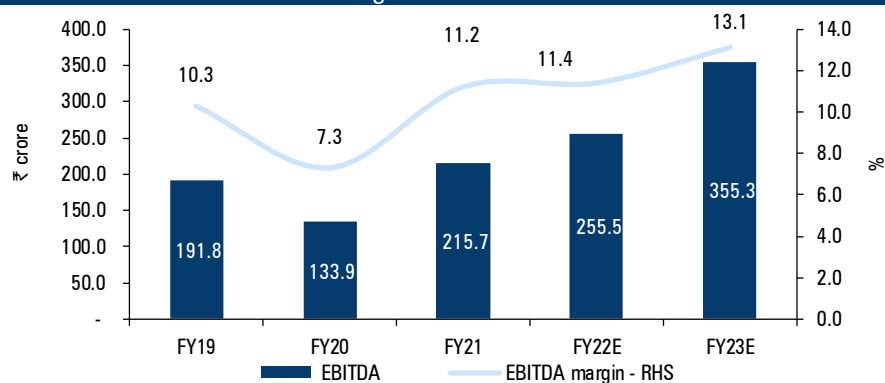
Source: Company, ICICI Direct Research

**Exhibit 4: Revenue segmentation**



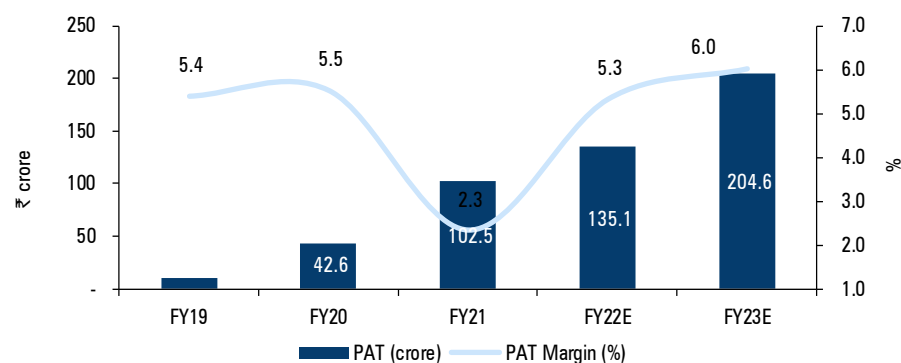
Source: Company, ICICI Direct Research

**Exhibit 5: EBITDA and EBITDA margin trend**



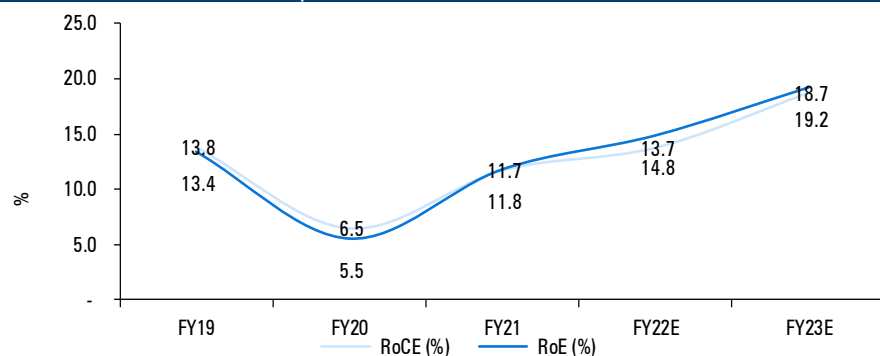
Source: Company, ICICI Direct Research

**Exhibit 6: PAT and PAT margin trend**



Source: Company, ICICI Direct Research

**Exhibit 7: Return ratios to improve**



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	1,829.4	1,924.1	2,241.5	2,712.2
Other Operating Income	-	-	-	-
Total Operating Income	1,829.4	1,924.1	2,241.5	2,712.2
% Growth	33.5	5.2	16.5	21.0
Other Income	15.2	23.5	21.5	24.0
Total Revenue	1,844.6	1,947.5	2,263.0	2,736.2
Growth (%)	33.5	5.6	16.2	20.9
Total Raw Material Costs	980.6	1,027.6	1,217.1	1,464.6
Employee Expenses	404.6	411.7	443.8	501.8
Other expenses	310.3	269.1	325.0	390.6
Total Operating Expense	1,695.5	1,708.4	1,986.0	2,356.9
EBITDA	133.9	215.7	255.5	355.3
Growth (%)	(3.8)	61.0	18.5	39.0
Interest	15.5	13.5	10.0	6.4
PBDT	133.6	225.7	267.0	372.9
Depreciation	65.2	74.3	80.0	86.8
PBT before Exceptional	68.3	151.4	187.0	286.1
Total Tax	27.0	50.3	53.3	83.0
PAT before MI	41.3	101.1	133.7	203.2
Minority Interest	-	-	-	-
PAT	42.6	102.5	135.1	204.6
Growth (%)	(42.4)	140.7	31.8	51.4
EPS*	1.3	3.2	4.3	6.5

Source: Company, ICICI Direct Research

Exhibit 9: Cash Flow Statement (₹ crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	42.6	102.5	135.1	204.6
Depreciation	65.2	74.3	80.0	86.8
Interest	15.5	13.5	10.0	6.4
Cash Flow before WC changes	123.4	190.3	225.2	297.7
Changes in inventory	(64.7)	0.7	(44.2)	(44.1)
Changes in debtors	20.2	(53.0)	(39.4)	(58.8)
Changes in loans & Advances	0.4	0.9	(0.7)	(1.4)
Changes in other current assets	(52.7)	13.6	(4.9)	(24.8)
Net Increase in Current Assets	(96.9)	(37.8)	(89.2)	(129.1)
Changes in creditors	(37.9)	80.1	36.6	31.2
Changes in provisions	(1.0)	1.1	1.7	1.4
Net Increase in Current Liabilities	(61.0)	117.0	59.6	37.7
CF from operations	(34.5)	269.5	195.6	206.4
Changes in deferred tax assets	8.8	(15.7)	-	-
(Purchase)/Sale of Fixed Assets	(159.9)	(54.3)	(83.0)	(95.0)
CF from Investing	(126.5)	(57.8)	(83.0)	(95.0)
Dividend and Dividend Tax	(55.5)	(25.4)	(38.0)	(47.5)
CF from Financing	136.5	(35.2)	(140.7)	(83.9)
Net Cash flow	(24.5)	176.5	(28.2)	27.5
Opening Cash/Cash Equivalent	110.2	85.7	261.8	233.6
Closing Cash/ Cash Equivalent	85.7	261.8	233.6	261.1

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet (₹ crore)				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Equity Capital	15.8	31.7	31.7	31.7
Reserve and Surplus	753.1	838.2	878.8	1,035.8
Total Shareholders funds	769.0	869.9	910.5	1,067.5
Minority Interest	-	-	-	-
Other Non Current Liabilities	37.1	53.1	53.1	53.1
Total Debt	389.7	369.6	333.4	303.4
Total Liabilities	1,211.8	1,306.6	1,311.0	1,438.1
Gross Block	814.8	868.7	955.8	1,050.8
Acc: Depreciation	207.1	281.4	361.5	448.3
Net Block	607.6	587.2	594.3	602.5
Capital WIP	3.7	4.1	-	-
Total Fixed Assets	611.4	591.3	594.3	602.5
Non Current Assets	41.9	55.9	55.9	55.9
Inventory	343.4	342.7	386.9	431.0
Debtors	346.8	399.7	439.1	497.9
Loans and Advances	6.9	6.0	6.7	8.1
Other Current Assets	114.0	100.4	105.4	130.2
Cash	85.7	261.8	233.6	261.1
Total Current Assets	896.7	1,110.6	1,171.7	1,328.2
Current Liabilities	208.8	288.9	325.5	356.7
Provisions	12.2	13.2	14.9	16.3
Net Current Assets	553.6	650.5	652.0	770.8
Total Assets	1,211.8	1,306.6	1,311.1	1,438.1

Source: Company, ICICI Direct Research

Exhibit 11: Key Ratios				
	FY20	FY21	FY22E	FY23E
<b>Per Share Data</b>				
EPS	1.3	3.2	4.3	6.5
BVS	24.3	27.5	28.7	33.7
Dividend per share	1.8	0.8	1.2	1.5
Dividend payout ratio	130.3	24.7	28.1	23.2
<b>Operating Ratios</b>				
EBITDA Margin	7.3	11.2	11.4	13.1
PAT Margin	2.3	5.3	6.0	7.5
Inventory days	68.5	65.0	63.0	58.0
Debtor days	69.2	75.8	71.5	67.0
Creditor days	41.7	54.8	53.0	48.0
<b>Return Ratios</b>				
RoE	5.5	11.8	14.8	19.2
RoCE	6.5	11.7	13.7	18.7
RoIC	5.7	12.4	14.6	20.6
<b>Valuation Ratios</b>				
EV / EBITDA	53.1	32.1	27.1	19.3
P/E	160.0	66.5	50.4	33.3
EV / Net Sales	3.9	3.6	3.1	2.5
Sales / Equity	2.4	2.2	2.5	2.5
Market Cap / Sales	3.7	3.5	3.0	2.5
Price to Book Value	8.9	7.8	7.5	6.4
<b>Turnover Ratios</b>				
Asset turnover	1.4	1.4	1.6	1.7
Debtors Turnover Ratio	5.1	5.2	5.3	5.8
Creditors Turnover Ratio	8.0	7.7	7.3	8.0
<b>Solvency Ratios</b>				
Debt / Equity	0.5	0.4	0.4	0.3
Current Ratio	3.7	2.8	2.8	2.9
Quick Ratio	2.1	1.7	1.6	1.7

Source: Company, ICICI Direct Research

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