Elgi Equipment (ELGEQU)

CMP: ₹550 | Target ₹ 675 (23%) | Target Period: 12 months

BUY

November 9, 2026

Domestic 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 FY26).

Q2FY27 performance: ELGI Equipment's reported healthy consolidated revenue growth of 17.2% YoY to ₹1,134.3 crore in Q2FY27 vs ₹968.0 crore in Q2FY26. Operating EBITDA increased 28.1% YoY to ₹183.5 crore from ₹143.3 crore, with operating EBITDA margin expanding 138 bps YoY to 16.2% from 14.8%, indicating improved operating profitability. PAT increased 5.7% YoY to ₹128.3 crore from ₹121.4 crore. Air Compressor business, which contributed approximately 92% of total revenue increased 18.0% YoY to ₹1,044.7 crore from ₹885.5 crore, Automotive Equipment revenue grew 8.3% YoY to ₹89.7 crore.

Investment Rationale:

- **Strong domestic growth outlook supported by GTM initiatives and Vayu expansion:** ELGi Equipment's is witnessing improving domestic demand momentum, supported by enhanced customer penetration, improved demand conversion and benefits from its go-to-market (GTM) strategy implemented over the past 2.5 years. India contributed 52% of Q2FY27 revenue, while overall revenue grew 17%. Additionally, the launch of the Vayu brand to address the low-cost compressor segment has received an encouraging initial response, with order bookings significantly exceeding management expectations. We believe improving domestic penetration, product diversification and aftermarket opportunities will support sustainable revenue growth over the medium term.
- **International business turnaround and operating efficiency to drive earnings recovery:** Elgi is focused on improving the profitability of its international operations, particularly Europe and Australia, through restructuring, cost rationalisation and operational improvements. Management expects Europe to achieve marginal profitability in FY27, while Australia is expected to witness improvement in Q3FY27 and Q4FY27. North America continues to deliver healthy profitability, supported by industrial demand and increasing aftermarket revenue. Further, the company has initiated cost-reduction programmes across material costs, variable costs and fixed overheads, with benefits expected to become more visible over the next 6–9 months. The planned ₹600 crore MK2 campus investment over 4–5 years is also expected to improve manufacturing integration and operational efficiencies.

Rating and Target Price: We expect Revenue and PAT to grow at 13.5% and 19% CAGR over FY26-FY28E. We recommend **BUY** on **Elgi Equipments** with a target price of **₹675 per share (based on 35x FY28E EPS).**

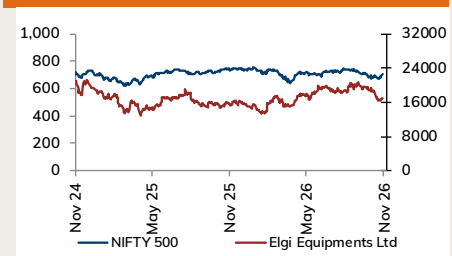
Particulars

	Rs. (in crore)
Market Capitalization	17382
Total Debt (FY26)	533
Cash and Inv. (FY26)	807
Enterprise Value	17649
52-week H/L (Rs.)	653/408
Equity capital	31.7
Face value (Rs.)	1

Shareholding pattern

%	Dec-25	Mar-26	Jun-26	Sept-26
Promoter	31.2	31.2	31.2	31.2
FII	23.1	22.2	21.9	20.2
DII	8.1	9.1	10.1	11.5
Others	37.6	37.5	36.8	37.1

Price Chart



Key risks

(i) Slowdown in demand;

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

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Result Update

ICICI Securities – Retail Equity Research

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%	4,543.3	5,088.5	13.5%
EBITDA	486.0	524.9	579.1	9.2%	704.2	814.2	18.6%
EBITDA Margin (%)	15.1	15.0	14.7		15.5	16.0	
Net Profit	311.9	350.1	430.2	17.4%	528.2	608.8	19.0%
EPS (₹)	9.8	11.0	13.6		16.7	19.2	
P/ E (x)	55.9	49.8	40.5		33.0	28.6	
RoNW (%)	19.4	18.8	19.8		19.6	18.8	
RoCE (%)	19.7	20.1	22.7		22.8	22.6	

Source: Company, ICICI Direct Research.

Q2FY27 key results highlights

- **Management commentary and business outlook:**
  - Management highlighted strong growth momentum in India, driven by three factors: improved demand conversion ratios, higher customer coverage through the go-to-market (GTM) strategy implemented over the past 2.5 years, and buoyant domestic demand. The benefits of the GTM initiative have become more visible in FY27, with increased customer enquiries and improved market penetration.
  - India outperformed international markets during the quarter, contributing 52% of revenue, while overseas markets accounted for 48%.
  - Management indicated that revenue growth of approximately 17% translated into an expected EBITDA benefit of around ₹65 crore. However, higher material costs resulted in an adverse impact of approximately ₹17 crore, partially offsetting the volume benefit.
  - The company continues to face inflation in metal commodity prices, with further increases observed after July–August. Management has implemented price corrections, with the impact of earlier increases reflected in Q2FY27, while the latest price corrections are expected to be progressively reflected in Q3FY27. Consequently, near-term gross margin improvement remains dependent on the ability to pass on further input-cost inflation.
  - The company received approximately ₹40 crore in US tariff refunds during August and September. Management clarified that around 50–60% of the refund has been recognised in Q2FY27 as a credit to material costs, while the balance remains included in inventory and will be recognised as the inventory is sold in Q3 and Q4. Accordingly, reported profitability has benefited from tariff refunds, and the underlying material-cost improvement should be assessed after adjusting for this benefit.
  - Management reiterated its FY27 guidance of marginal profitability in Europe, with breakeven representing the worst-case scenario, subject to no further geopolitical disruptions. The company has undertaken restructuring and cost rationalisation in Europe. Australia is also progressing as planned to following organisational restructuring, with management expecting improved performance in Q3FY27 and Q4FY27. However, the European recovery is likely to be gradual, given weak economic conditions and subdued industrial investment across key markets.
  - Management highlighted healthy profitability in the North American industrial business, supported by increasing aftermarket revenue. The company expects industrial profitability to remain strong as the installed equipment base expands, creating opportunities for higher-margin aftermarket services. Pattons and Michigan Air operations are gradually recovering, with improvement in service income and equipment sales. Management expects further volume-led profit growth rather than any significant margin expansion.
  - The company launched its Vayu brand to compete with low-cost Chinese imports in the lubricated screw compressor market. Management indicated that initial order bookings and sales have been significantly higher than anticipated. The company achieved approximately 35% geographical coverage by September and remains on track to achieve pan-India coverage by January–February 2027. The addressable market represents

approximately 25–30% of the volumes in the oil-lubricated screw compressor category. While Vayu's gross margins are expected to remain lower than the conventional Elgi range, management expects EBITDA profitability to approach the company's traditional business levels as volumes scale up and aftermarket revenue increases.

- The company has earmarked approximately ₹600 crore of investment over 4–5 years for the MK2 campus consolidation programme, aimed at progressively shifting operations from the city facility to the main campus. The first phase, involving the Global Support Centre, has already become operational. The facility houses a fully automated global parts warehouse serving the company's worldwide operations. The second phase involves shifting diesel and portable compressor manufacturing, with basic work initiated and completion targeted by Q1CY28. The project is expected to improve operational integration and support manufacturing efficiencies over the longer term.
- **Cost optimisation initiatives to mitigate inflationary pressures**: Management highlighted concerns around rising metal commodity prices and fuel costs, particularly amid geopolitical uncertainties. The company has initiated a comprehensive cost-reduction programme covering material costs, variable costs and fixed overheads without compromising product quality or customer service. Management indicated that the exercise could take approximately 6–9 months, with greater clarity expected by Q4FY27. IT expenditure has also increased due to investments in cybersecurity, global system standardisation and CRM platforms across India, the US and Australia.
- **Guidance:** Management expects margins to improve going forward, with ~ 12-13% long term revenue growth & 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**	**4,543**	**5,089**
Other Operating Income	-	-	-	-
Total Operating Income	3,510	3,951	4,543	5,089
% Growth	9.1	12.5	15.0	12.0
Other Income	57.7	117.8	110.0	115.0
Total Revenue	3,568	4,069	4,653	5,204
Growth (%)	9.0	14.0	14.4	11.8
Total Raw Material Costs	1,717	1,934	2,249	2,493
Employee Expenses	683	776	841	941
Other expenses	585	662	750	840
Total Operating Expense	2,986	3,372	3,839	4,274
EBITDA	**525**	**579**	**704**	**814**
Growth (%)	8	10	22	16
Interest	30	25	16	11
PBDT	552	672	798	918
Depreciation	76	86	100	112
PBT before Exceptional	476	586	698	806
Total Tax	132	147	176	203
PAT before MI	350	430	528	609
Minority Interest	-	-	-	-
PAT	**350**	**430**	**528**	**609**
Growth (%)	12.2	22.9	22.8	15.3
EPS	11.0	13.6	16.7	19.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end-March)	FY25	FY26	FY27E	FY28E
Profit after Tax	350	430	528	609
Depreciation	76	86	100	112
Interest	30	25	16	11
Cash Flow before WC changes	457	541	644	732
Changes in inventory	14	(102)	(136)	(102)
Changes in debtors	(5)	(116)	(123)	(74)
Changes in loans & Advances	1	(1)	(17)	(3)
Changes in other current assets	(23)	22	(23)	(16)
Net Increase in Current Assets	(58)	(281)	(299)	(194)
Changes in creditors	(9)	123	101	67
Changes in provisions	22	12	16	10
Net Increase in Current Liabilities	35	177	176	110
CF from operations	**433**	**438**	**521**	**648**
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)	159	323
Opening Cash/Cash Equivalent	774	874	807	966
Closing Cash/ Cash Equivalent	**874**	**807**	**966**	**1,289**

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	2,665	3,210
Total Shareholders' funds	1,866	2,232	2,696	3,242
Minority Interest	-	-	-	-
Other Non-Current Liabilities	-	-	-	-
Total Debt	577	534	354	254
Total Liabilities	**2,467**	**2,793**	**3,079**	**3,524**
Gross Block	1,218	1,411	1,611	1,761
Acc: Depreciation	626	712	812	924
Net Block	592	699	799	837
Capital WIP	53	136	136	136
Total Fixed Assets	645	835	935	973
Non-Current Assets	74	178	82	82
Inventory	609	711	846	948
Debtors	608	724	846	920
Loans and Advances	4	6	23	25
Other Current Assets	134	113	136	153
Cash	874	807	966	1,289
Total Current Assets	2,277	2,490	2,948	3,465
Current Liabilities	337	460	560	627
Provisions	59	72	87	98
Net Current Assets	1,702	1,738	2,020	2,427
Total Assets	**2,467**	**2,793**	**3,079**	**3,524**

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	16.7	19.2
BVS	58.9	70.4	85.1	102.3
Dividend per share	2.0	2.2	2.0	2.0
Dvidend payout ratio	18.1	16.2	12.0	10.4
Operating Ratios				
EBITDA Margin	15.0	14.7	15.5	16.0
PAT Margin	10.0	10.9	11.6	12.0
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	19.6	18.8
RoCE	20.1	22.7	22.8	22.6
RoIC	28.5	28.4	29.9	32.3
Valuation Ratios				
EV / EBITDA	32.6	29.6	23.9	20.1
P/E	49.8	39.5	33.0	28.6
EV / Net Sales	4.9	4.3	3.7	3.2
Sales / Equity	1.9	1.8	1.7	1.6
Market Cap / Sales	5.0	4.4	3.8	3.4
Price to Book Value	9.3	7.8	6.5	5.4
Turnover Ratios				
Asset turnover	1.4	1.5	1.4	1.4
Debtors Turnover Ratio	5.8	5.9	5.8	5.8
Creditors Turnover Ratio	10.3	9.9	8.9	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%

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