

ELGI Equipments Sample research report - Synopsis



We have done a detailed analysis of Air compressor industry, ELGI and its competitors. ELGI being the 2nd biggest company in India has a promising potential for future growth and a good prospects.

ELGI's management has taken a few key decisions from 2010 which had good outcomes and helped the company grow and keep the eye on its aspirations to become the World's 2nd biggest player in the Air compressor industry

Areas covered in the detailed research report

- Air compressor Industry analysis.
- About ELGI and products.
- Types of products and application.
- Segment wise performance of the company.
- Opportunity size and potential.
- Investment thesis.
- Competitor overview, market share analysis.
- Key financial parameters - Working capital trend, return ratios, cash flow ratios.
- Management analysis - Management outlook, performance track record, Strategic decisions of the management from 2010 and how it shaped the company, Managements financial performance, remuneration.
- Related party transactions.
- Valuations and our recommendations.
- Intrinsic value growth and our range of price to buy.
- Historic 10 year P/E
- Probabilities and scenarios - Best case and worst case scenarios and likelihood of the outcomes.

About the business

ELGI was established in the year 1960 in Coimbatore, Tamilnadu as a Air compressor manufacturer and was listed in the year 1975. Its business verticals include Air compressors and Automotive Equipments.

Elgi mainly caters to 5 industries

Agriculture	Pharmaceuticals	Packaging	Manufacturing	Food and beverage
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Products of ELGI

- Oil Lubricated compressors
- Oil free compressors
- Screw air compressors
- Portable compressors
- Air accessories

Air compressor industry

Globally air compressor industry stands at 15bn\$, Indian air compressor industry is estimated to be around \$1.90 BN and is expected to grow at 5% CAGR.

Air compressors finds application in most of the industries, the primary service area being manufacturing. The industry is highly competitive and dominated by majorly by 4 big players in the organized market.

Major players in India and their market share

- Atlas copco - 40%
- Elgi Equipments - 24%
- Ingersoll rand - 14%
- Kirloskar Pneumatic - 7%
- Others - 15%

Strategic decisions by the management from 2010

- The management clearly has an eye for growth the company has been in the market for around 60 years, which shows the focus and commitment of the management to build and enhance value and currently reach the No2 spot domestically and have high aspirations to reach no 2 in the global market
- There were certain **important critical decisions** by the management in the last decade which we feel has shown the focus and the ability to make important strategic decisions - **The Acquisitions it made in 2010 in US and Italy.**

Competitor overview

Organized air compressor market in India is dominated by 4 key players and they account for almost 80% of the organized market. Elgi's major competitors include Atlas Copco (not-listed), Kirloskar pneumatic and Ingersoll rand.

1. Ingersoll rand - Established in the year 1921 in India as one of the first American investments in India, accounts for 14% of the market share. Its manufactures Compressor system and services, Lifting and material handling hoists and winches, power tools.

Sales	739 cr , Growth of 7% CAGR 5 years
PBT	127 cr
ROCE	17%
Market Capitalization	1975 Cr
EV / EBIDTA	13.5

Management analysis - Qualitative and Quantitative

- 1. Remuneration & shareholding** - Jairam varadaraj holds 8.72% direct shares in the company, he also is a director of **DARK HORSE PORTFOLIO INVESTMENT Ltd** which holds 16.32% in ELGI. Remuneration of 15.32 million 1.48% of Net profits as of 2019 a 29.39% increase, Median remuneration to employees 27:1. The company is in compliance with all the norms of the government (**Note** : As per the Ceiling only 5% of the Net profits can be given as the ceiling to the MD and the MD shouldn't be part of the remuneration committee - Source Ministry of India web(<https://www.mca.gov.in/SearchableActs/Section197.htm>))
- 2. Related party transaction** - The Company has entered into multiple transactions with its related parties - **LGB Forge Ltd, ATS Elgi Ltd** and other subsidiaries, most of them inter-party transactions within their subsidiaries. ELGI has also made investments into LGB Forge.

Re-investment requirements for ELGI:

The company for the last 10 years has grown at an average rate of 10% CAGR in revenues. Growth in sales requires additional capital, so the return on capital determines the amount required to re-invest.

Return on capital employed (5 year average) = 17%

Cost of capital (Assuming current RF rate + premium) = 10%

When ROCE > ROC than additional investment for growth creates value.

Re-investment required to grow at 10% = $0.10 / 0.17 = 59\%$

Why ELGI Equipments? Where we see it in the next 3- 5 years?

We believe ELGI has a huge potential once the economy turns around and once the Covid-10 issue gets sorted out. ELGI has the potential for big gains from the current valuations; we have recommended this for our clients in 2020. ELGI's managements have huge aspirations to turn the company into a global player which will give the company a huge strategic advantage over peers.

In 5 years ELGI could be a good compounder and as per our estimates **buying ELGI at a right price** can turn this into a potential good investment in the portfolio, we have given our intrinsic value estimation for ELGI and our buy range in our detailed research report.

This valuations stands good as of July 2020, we will update our thesis and our valuations in the next FY.

Our other recommendations and research reports in 2020.

- 1. Mahindra Logistics - Buy at 230 levels , Buy given in 2019, Valuations triggered in 2020 April**
- 2. ITC - Buy at 140-160 levels.**
- 3. Castrol - Buy at 100-115 levels**
- 4. Alembic pharma - recommended buy in 2017 at 550 levels - Currently at 70% gains.**
- 5. Amara Raja batteries - Buy at 500 levels, Recommended in 2017 - Valuations triggered in 2020 April**

For our other research reports from 2018 and recommendations visit our site.

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Disclaimer - Invested in ELGI Equipment, This is a sample report, not recommending, please consult your financial advisor before taking decisions.

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