

July 17th, 2010

C.M.P:
Rs.121.85

Target Price:
Rs.150.00

1 Year Comparative Graph



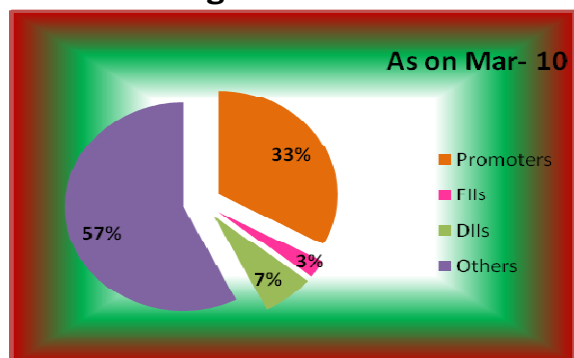
ELGI EQUIPMENTS LTD

BSE SENSEX

Stock Data

Sector	Capital Goods
Face Value(Rs)	1.00
52 wk. High/Low (Rs.)	130.40/47.50
Volume (2 wk. Avg.)	37000
BSE Code	522074
Market Cap(Rs in Mn)	9523.80

Share Holding Pattern



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SYNOPSIS

- We initiated the coverage of Elgi Equipments Ltd and set a target price of Rs.150.00 for medium to long term gains.
- Elgi Equipments incorporated in 1960; the company is a market leader and Asia's largest manufacturer of air compressors and automobile service station equipment.
- ELGI's products are used in a wide range of applications in areas ranging from mining, defence, transport, pharmaceuticals, power, oil, railways, chemicals, textiles, printing to ship building, paper, electronics, telecommunications, medical, food & beverages and plastics.
- The Company has signed an agreement to buy hundred percent (100%) shares of a Company in Europe engaged in manufacture, sales and service of Compressors.
- ELGI has received ISO 9001:2000 certification for its quality management. The company has network of 114 dealers.
- Elgi Equipments has entered into a joint venture with J P Sauer & Sohn of Germany to Elgi Sauer Compressors. This JV will develop advanced compressor and will provide product and logistic support for the Indian Navy, Marine and specialized industrial applications.
- Elgi is also making plans to significantly penetrate the highly technologically sensitive markets of Europe and US.
- The company has global presence in countries namely Europe, Africa, North America, Latin America, Australia, Middle East, South East Asia, West Asia.
- Net Sales and PAT of the company are expected to grow at a CAGR of 19% and 24% over 2009 to 2012E respectively.

Financials (Rs in Mn)

	FY09	FY10	FY11E	FY12E
Net Sales	5522.50	6783.44	8140.13	9198.34
EBIDTA	728.32	1075.48	1164.00	1314.59
PAT	407.41	579.95	685.36	778.40
EPS	6.79	7.42	8.77	9.96
P/E	7.15	16.42	13.90	12.24

Peer Group Comparison

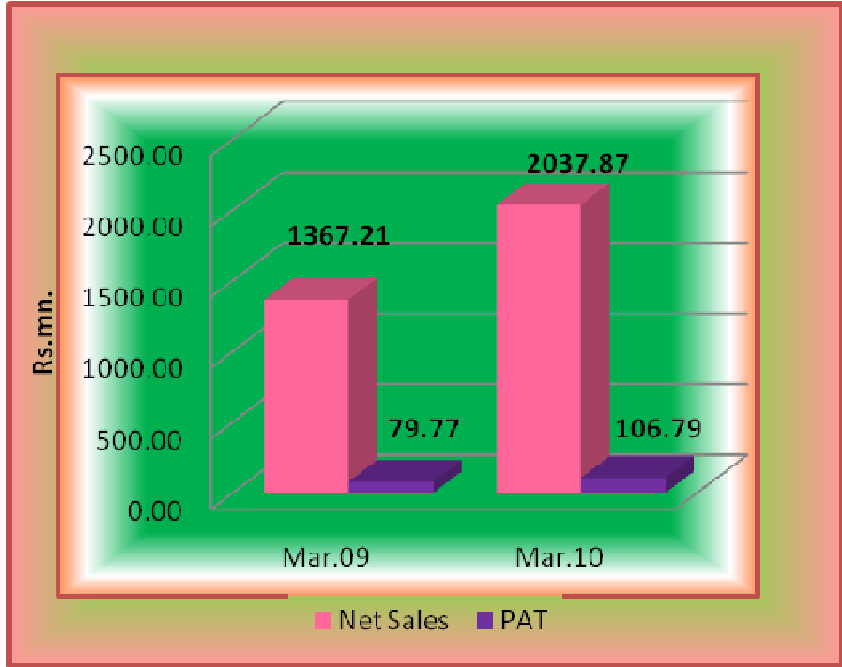
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/BV(x)	Dividend (%)
Elgi Equipments	121.85	9523.80	7.42	16.42	3.50	130.00
Lloyd Electric	87.70	271.87	12.63	6.94	0.66	0.00
Kirloskar Pneu	541.15	695.07	38.07	14.21	4.35	120.00

Investment Highlights

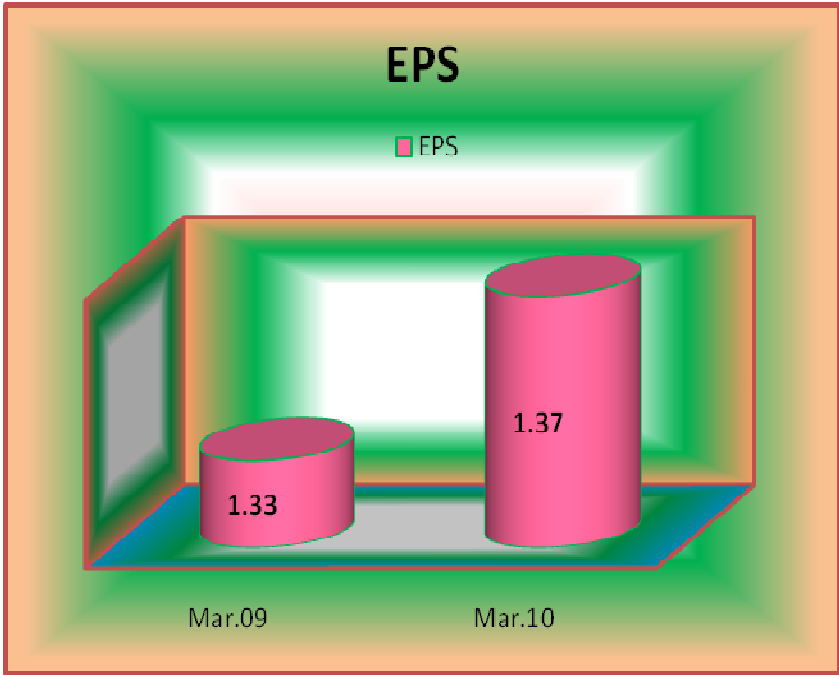
◆ Q4 FY10 Results Update

Elgi Equipments Ltd disclosed results for the quarter ended March 2010. Net sales for the quarter moved up 49% to Rs.2037.87 million as compared to Rs.1367.21 million during the corresponding quarter last year. During the quarter, PAT is increased Rs.106.79 million as compared to Rs.79.77 million in previous year same quarter. The Basic EPS of the company stood at Rs.1.37 for the quarter ended March 2010.

Quarterly Results – Consolidated (Rs in mn)			
As At	Mar-10	Mar-09	%Change
Net sales	2037.87	1367.21	49%
PAT	106.79	79.77	34%
Basic EPS	1.37	1.33	3%



Basic EPS of the company stood at Rs.1.37



❁ **Scheme of Amalgamation**

Elgi Equipments Ltd has informed that the Company will be held on July 29, 2010, for the purpose of considering, and if thought fit, approving, with or without modification, the arrangement embodied in the Scheme of Amalgamation proposed to be made between Elgi Industrial Products Ltd. and Elgi Equipments Ltd. and their respective shareholders.

❁ **Dividend Declaration**

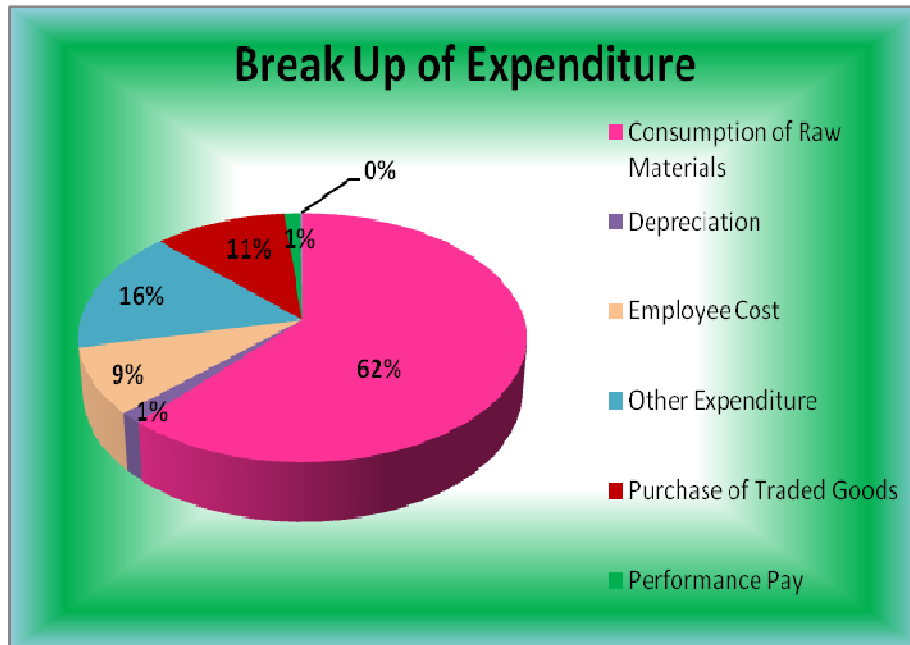
Elgi Equipments Ltd has recommended an interim dividend of 125% [Rs. 1.25 per share] for the financial year 2009-10.

❁ **Elgi Equipments acquires France-based Belair**

Elgi Equipments has acquired France-based Belair, a company engaged in assembly, sales and service of industrial compressors, piping, fittings and accessories. It has acquired the entire stake of Belair for Euro 700,000, i.e. about Rs 4.35 crore, which has been funded from its internal accruals. Belair has established itself as a strong supplier of compressors to the industrial segment with about 3% share of the French market.

Elgi is on the path of acquisition of small to medium companies in Europe and other developed markets with strong brand names and supporting them with the 'Elgi Inside' strategy of providing key technologies and product extensions. Earlier in December 2009, without naming of the company, Elgi decided to acquire 100% stake in a company based in Europe.

● Break Up of Expenditure



Company Profile

Elgi Equipments incorporated in 1960; is engaged in manufacturing of air compressors and automobile service station equipment. Products manufactured by company has wide applications in the area of mining, pharmaceuticals, ship building, power, oil, chemicals, textiles, printing, paper, transport, electronics, telecommunications, defence, medical, railways, food and beverages and plastics.

ELGI has received ISO 9001:2000 certification for its quality management. The company has network of 114 dealers. The company has global presence in countries namely Europe, North America, Latin America, Africa, Australia, Middle East, South East Asia, West Asia and the Far East.

Divisions

- Rotary Compressor Division.
- Reciprocating, Railways and Original Equipment Division.
- Automotive Equipment Division.
- Engines Division.
- Manufacturing and Engineering Services.

Products

• **Rotary Screw Air Compressors**

Under this company designs and manufactures electric and diesel powered screw air compressor. Under this the company manufactures wide range of products such as electric powered screw air compressors, airends, oil-free screw air compressor, centrifugal air compressor and portable screw air compressor. The company has also manufactured worlds smallest screw air compressor known as ELGI Micro Rotary.

• **Reciprocating Air Compressors**

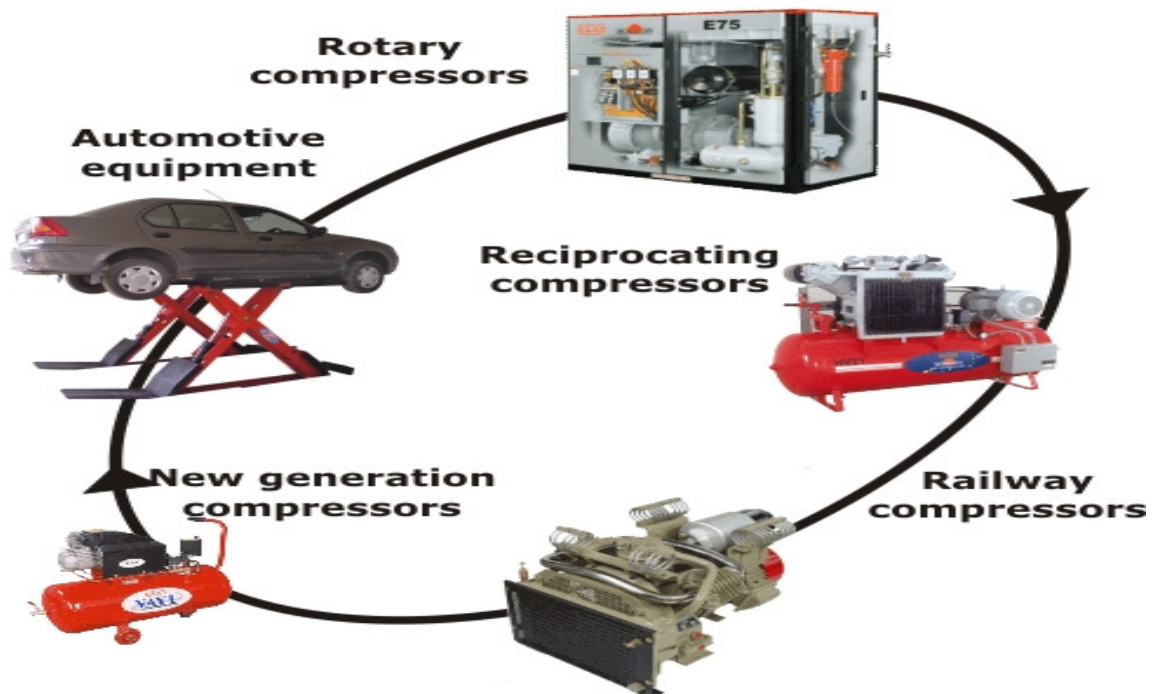
Under this, EEL manufactures a range of compressors namely horizon series reciprocating air compressors, borewell compressors, ELGIPET air power systems, high pressure / volume reciprocating air compressors, high volume tank mounted compressors, tractor mounted air compressors, high pressure reciprocating air compressor and bare compressor pumps.

• **Automotive Equipments**

Under this the company manufactures equipments for two, three and four wheelers that provide total service station solutions. Company is engaged in production of automotive equipments such as body shop equipment, service station equipment, wheel servicing equipment, test lanes, pneumatic equipment are among others.

• **Railway Compressor**

ELGI manufactures Railway Compressors and a variety of compressor solutions for railway applications like circuit breakers, engine starting etc. The company manufactures products such as electrical locomotives, diesel locomotives, expressors, auxillary compressor, exhausters, wind Screen wipers and water raising apparatus.



Financials Results

12 Months Ended Profit & Loss Account (Consolidated)

Value(Rs.in million)	FY09A	FY10A	FY11E	FY12E
	12m	12m	12m	12m
Description				
Net Sales	5522.50	6783.44	8140.13	9198.34
Other Income	46.34	23.22	24.38	26.82
Total Income	5568.84	6806.66	8164.51	9225.16
Expenditure	-4840.52	-5731.18	-7000.51	-7910.58
Operating Profit	728.32	1075.48	1164	1314.59
Interest	8.48	43.84	48.22	53.05
Gross Profit	736.80	1119.32	1212.22	1367.63
Depreciation	-82.74	-97.10	-106.81	-112.15
Exceptional Items	0.00	-81.08	0.00	0.00
Profit before Tax	654.06	941.14	1105.41	1255.48
Tax	-246.65	-361.19	-420.06	-477.08
Profit after Tax	407.41	579.95	685.36	778.40
Equity Capital	60.00	78.16	78.16	78.16
Reserves	1904.53	2645.09	3330.45	4108.85
Face Value	1.00	1.00	1.00	1.00

EPS	6.79	7.42	8.77	9.96
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*A=Actual, *E=Estimated

Quarterly Ended Profit & Loss Account (Consolidated)

Value(Rs.in million)	30-Sep-09	31-Dec-09	31-Mar-10	30-Jun-10
	3m(A)	3m(A)	3m(A)	3m(E)
Description				
Net Sales	1615.26	1821.10	2037.87	1935.98
Other Income	9.02	0.93	3.95	4.35
Total Income	1624.28	1822.03	2041.82	1940.32
Expenditure	-1340.33	-1521.40	-1752.84	-1645.58
Operating Profit	283.95	300.63	288.98	294.74
Interest	10.11	12.05	15.81	17.39
Gross Profit	294.06	312.68	304.79	312.13
Depreciation	-23.77	-24.38	-25.88	-26.92
Exceptional Items	0.00	0.00	-81.08	0.00
Profit before Tax	270.29	288.30	197.83	285.22
Tax	-97.49	-99.39	-91.04	-108.38
Profit after Tax	172.80	188.91	106.79	176.83
Equity Capital	60.00	78.10	78.16	78.16
Face Value	1.00	1.00	1.00	1.00

EPS	2.88	2.42	1.37	2.26
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*A=Actual, *E=Estimated

Key Ratios

Particulars	FY09	FY10	FY11E	FY12E
EPS (Rs.)	6.79	7.42	8.77	9.96
EBITDA Margin (%)	13.19%	15.85%	14.30%	14.29%
PAT Margin (%)	7.38%	8.55%	8.42%	8.46%
P/E Ratio (x)	7.15	16.42	13.9	12.24
ROE (%)	20.74%	21.30%	20.11%	18.59%
ROCE (%)	32.86%	35.93%	31.02%	28.72%
EV/EBITDA (x)	4.00	8.86	8.18	7.24
Debt-Equity Ratio	0.00	0.00	0.00	0.00
Book Value (Rs.)	32.74	34.84	43.61	53.57
P/BV	1.48	3.50	2.79	2.27

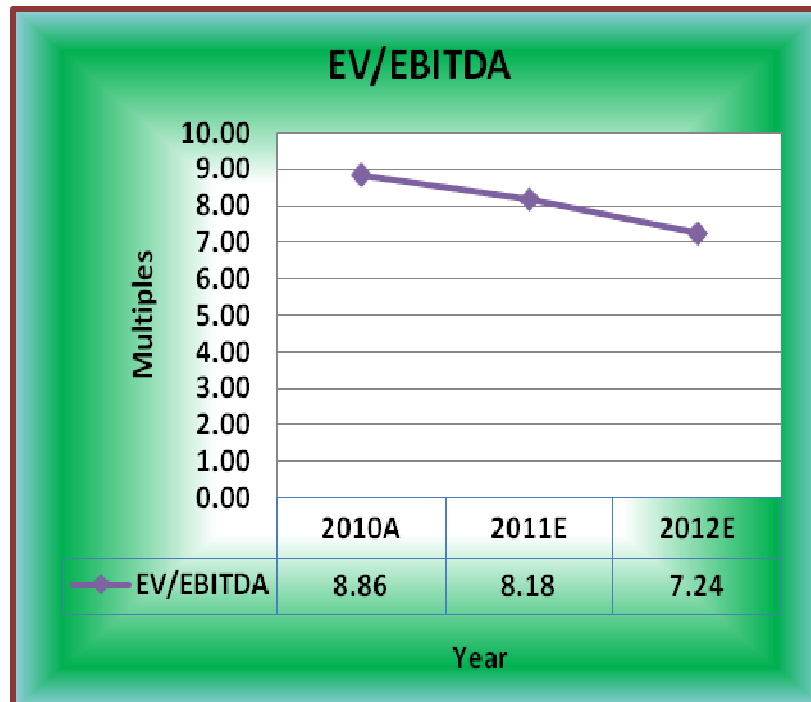
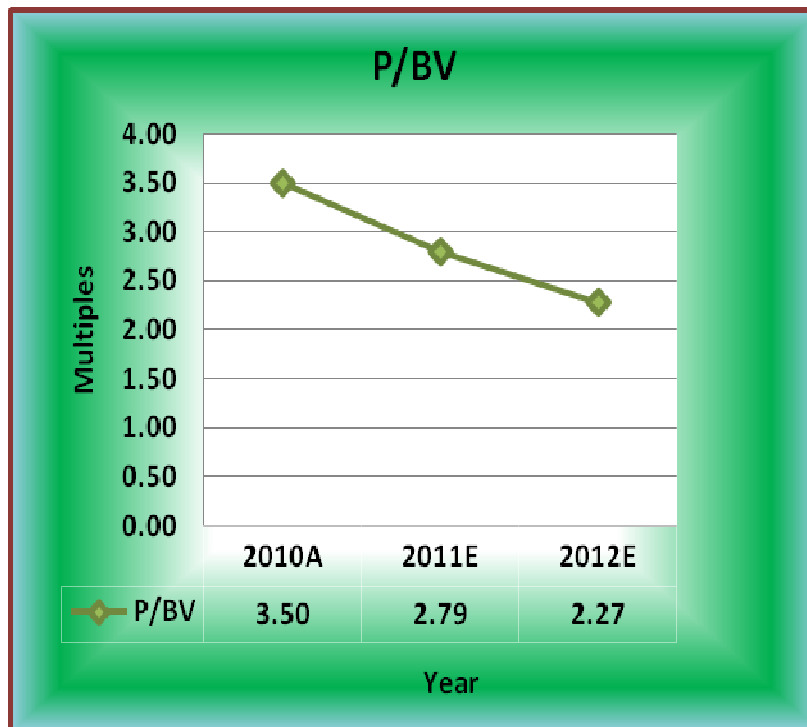
Charts:

Net Sales & PAT

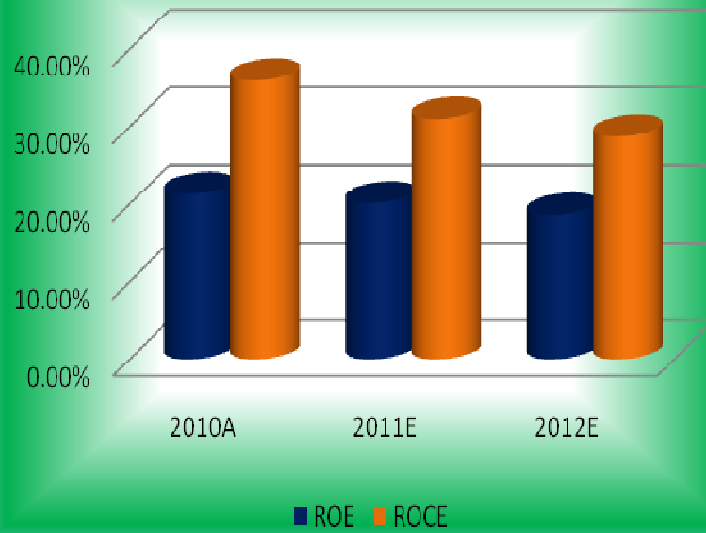


P/E

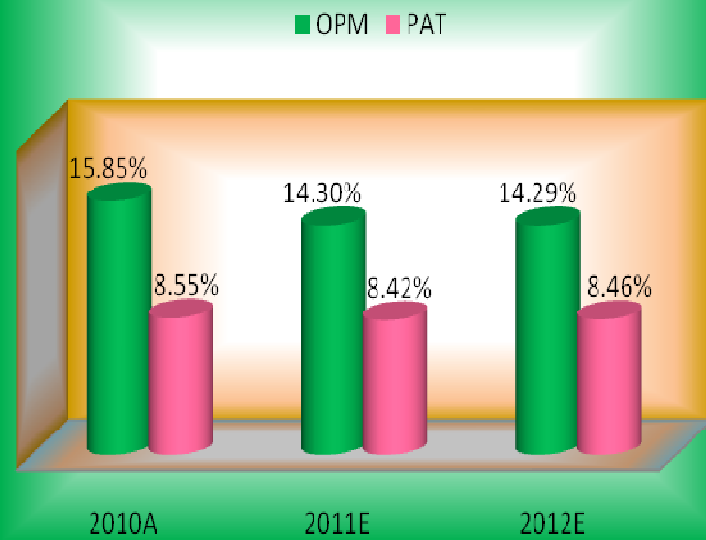




ROE & ROCE



Margins

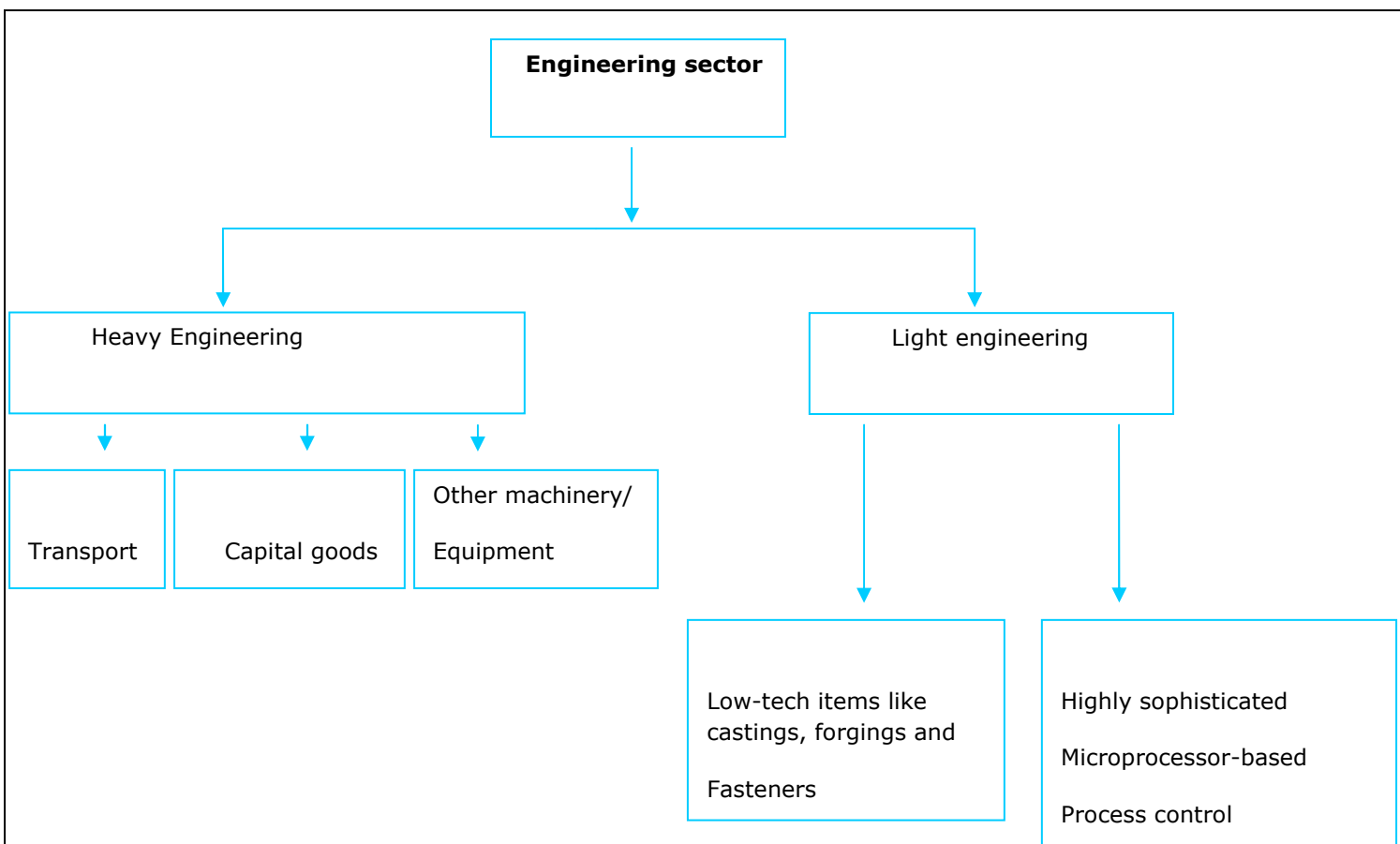


Outlook and Conclusion

- At the current market price of Rs.121.85, the stock is trading at 13.90 x FY11E and 12.24 x FY12E respectively.
- Price to Book Value of the stock is expected to be at 2.79 x and 2.27 x respectively for FY11E and FY12E.
- Earning per share (EPS) of the company for the earnings for FY11E and FY12E is seen at Rs.8.77 and Rs.9.96 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 19% and 24% over 2009 to 2012E respectively.
- The Company has signed an agreement to buy hundred percent (100%) shares of a Company in Europe engaged in manufacture, sales and service of Compressors.
- ELGI has received ISO 9001:2000 certification for its quality management. The company has network of 114 dealers.
- Elgi Equipments has entered into a joint venture with J P Sauer & Sohn of Germany to Elgi Sauer Compressors. This JV will develop advanced compressor and will provide product and logistic support for the Indian Navy, Marine and specialized industrial applications.
- On the basis of EV/EBITDA, the stock trades at 8.18 x for FY11E and 7.24 x for FY12E.
- The company is exploring various organic growth opportunities by developing new products to meet market needs. We expect that the company will keep its growth story in the coming quarters also. We recommend **'BUY'** in this particular scrip with a target price of Rs.**150.00.00** for Medium to Long term investment.

Industry Overview

Engineering Sector: Market & Opportunities



India's engineering industry is highly competitive with a number of players in each segment. The engineering sector has been growing, driven by growth in end user industries and the new projects being taken up in the power, railways, infrastructure development, and private sector investments fields amongst others. The industry attracted FDI inflows of US\$ 1,196.7 million from August 1991-July 2006

India's exports of engineering goods are valued at US\$ 27 billion during 2006-07 which represents a 6 per cent growth over the exports for 2005-06 (US\$ 20 billion). The engineering sector accounted for 14 per cent of the country's total exports. It is also noteworthy that 40 per cent of India's engineering export is from the small and medium enterprises (SME) sector. According to Engineering Exports Promotion Council (EEPC), engineering exports could touch US\$ 30 billion by 2008-09. In such a scenario, India, driven by the engineering sector, will emerge as a key global manufacturing hub

Industry demand is driven by investments in core sectors

The demand from this sector depends largely on GDP growth, which in turn is a function of expenditure in core segments like power, railways, and infrastructure development, private sector investments, and the speed at which projects are implemented. The power sector is the largest contributor to the revenues of engineering companies. Engineering majors like Bharat Heavy Electricals Limited (BHEL) and ABB Limited derive a significant chunk of their revenues (69 per cent and 60 per cent, respectively) through the supply of equipment to the power sector.

Infrastructure is another key area of operation. Larsen & Toubro Limited, for example, garners around 35 per cent of its sales from infrastructure activities like engineering, design and construction of industrial projects, social and physical projects like housing, hospitals, information technology (IT) parks, expressways, bridges, ports, and water/effluent treatment projects. The industrial segment contributes to around 30 per cent of the total revenues of the engineering sector. While India's engineering industry has capabilities in manufacturing the range of machinery required by the different user sectors, the rapid rise in demand has led to a large part of the machinery requirements being met through imports. This indicates the size of opportunity for investment in the engineering and capital goods sector in India. The engineering industry has attracted FDI inflows of US\$ 1,196.73 million from August 1991-July 2006.

Indian Engineering goods are gaining acceptance in overseas markets

India's exports of engineering goods are valued at US\$ 27 billion during 2006-07 which represents a 36 per cent growth over the exports for 2005-06 US\$ 20 billion). The engineering sector accounted for 14 per cent of the country's total exports. It is also noteworthy that 40 per cent of India's engineering export is from the small and medium enterprises (SME) sector. A key driver for increased engineering exports is the trend towards shifting of global manufacturing bases to countries like India that offer lower costs and good engineering talent. This trend is expected to continue and boost exports of engineering goods from India over the next 5 years. According to Engineering Exports Promotion Council (EEPC), engineering exports could touch US\$

30 billion by 2008-09. In such a scenario, India, driven by the engineering sector, will emerge as a key global manufacturing hub.

The nature of Indian engineering exports is also changing with time. India is fast moving from exporting low value goods to developing countries to more sophisticated goods targeted at developed countries. Capital goods account for 27 per cent of total engineering exports. Exports to European Union countries and North America accounted for 19 per cent and 17 per cent respectively, of total engineering exports in 2005-06. Engineering goods worth US\$ 3.34 billion were exported to USA alone in April – Feb 2006-07

Growing Demand

Capacity creation and transformation in sectors such as infrastructure, power, mining, oil & gas, refinery, steel, automotive, consumer durables are driving growth in the engineering industry. The framework below captures some of the key factors that are contributing to domestic and international demand for engineering goods from India. Restructuring of the state electricity boards in different states, growth of private sector players and focus on capacity creation have driven growth in the power sector.

Conclusion

The Engineering sector's future outlook is promising. Drivers like power projects, other infrastructure development activities, industrial growth and favorable policy regulations will drive growth in manufacturing. The Indian engineering industry has been witnessing significant level of capability enhancement over the years. As export markets open up, this will help India develop a strong presence in global engineering exports. Power sector contributes the largest to the engineering companies' revenues. Major players in this sector like ABB and BHEL derive 60 per cent and 69 per cent of their revenues from supplying equipments to the power sector. Going forward, with the Government clearing the blueprint for adding 100,000 MW in the tenth (2002-07) and eleventh 2007-12) five-year plans, the potential are high for the engineering majors. Emerging trends such as outsourcing of engineering services can provide new

opportunities for quantum growth. Engineering and design services such as new product designing, product improvement, maintenance and designing manufacturing systems are increasingly getting outsourced to countries like India and China. India's engineering sector has significant potential for future growth, in manufacturing as well as services.

With development in associated sectors like automotive, one of the largest evolving markets for engineering and industrial goods, and a well developed technical human resources pool, India is poised to make significant strides in all segments of engineering.

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