



Report Date	February 1, 2008.
Company Name	ELGI Equipments Limited (ELGI)
Recommendation	BUY

CMP – Rs. 57/-	Target Price – Rs. 98/-	Mkt.Cap. - Rs. 342 crore
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Investment Rationale

- Elgi Equipments, market leader and Asia's largest manufacturer of air compressor and automobile service station equipment, has reported very good performance for Q3 FY 2008. Consolidated Net Sales grew @ 24.8% to Rs.119.81 crore led by 24.9% growth in Compressor sales of Rs. 98.66 crore. Automotive business turnover grew @ 22.4% to Rs.19.02 crore. OPM% improved marginally to 11.1%. Consequently, PBT (before extraordinary items) rose by 30.7% to Rs.12.31 crore. Lower average tax rate of 23.2% (28.6%) lifted PAT up by 41.7% to Rs. 9.45 crore.
- For 9 months ending December 31, 2007, net sales were up by 31.5% to Rs 357.01 crore. OPM% improved to 12.1% (10.4%) due to operational efficiencies and more contribution from high margin compressor business. As a result, PBT (before extraordinary items) spurted up by 69.4% to Rs 43.61 crore. Further aided by lower average tax rate of 28.8% (31.4%) PAT jumped up by 77% to 31.06 crore.
- ELGI's compressor finds application in industries ranging from mining, defence, transport, pharmaceuticals, power, oil, railways, chemicals, textiles, printing to ship building, paper, electronics, telecommunications, medical, food & beverages and plastics. To widen its sphere of product application & technology and offer complete air solution in oil free segment, it has tied-up with CompAir UK, one of world's leading manufacturers of compressed air & gas systems. This agreement would not only expand the range but would also enhance exports. Vast opportunities in gas compressor sector offers huge growth potential and margin improvement for ELGI.
- Company will be setting up an assembly unit in China. This is because Chinese compressor market is 4 times bigger than Indian market. Profitability is same as Indian market. Company will source raw material from local Chinese suppliers. This unit is expected to meaningful contribute from FY 2009.
- To focus on core business, company undertook restructuring exercise by selling off its diesel engine business in FY 2007 and spun-off its Automotive Equipment business into 100% subsidiary – ATS Elgi Ltd w.e.f August 1, 2007. It has signed technical collaboration agreement with MAHA of Germany, premium workshop equipment manufacturing company. Under this agreement, company would be manufacturing high-end electronically synchronized two post lifts. These would be manufactured and sold in Indian market under ATS ELGI - MAHA name and exported to other Asian countries as well. The project in underway and products will be rolled out in Q4 FY 2008. Company has tied up with Reliance Retail to provide total automotive solutions thru Reliance Mart (Car Service Workshop) which will set up 500 marts across India.
- In FY 2007, company ventured into a new business – manufacturing engineering, which involves providing engineering services & manufacturing parts to customers worldwide. This business has achieved sales of Rs. 10 crore in first 9 months (Rs. 8 crore in FY 2007). As there is huge growth potential in this nascent business, company plans to invest Rs. 18 crore.

Valuation

- At CMP, share is trading at 10.2 times FY 2008 expected consolidated EPS of Rs.5.6 (on fully diluted equity of Rs. 7.82 crore post partly paid shares becoming fully paid) and 8.1 times FY 2009 expected consolidated EPS of Rs.7/- (diluted). In view of bright prospects, we recommend to "BUY" the share at CMP.

Financial Summary

Rs. Crore

	FY 2008	FY 2007	%	FY 2008	FY 2007	%	2007 A
Rs. Crore	Q3		Change	9 months		Change	12 mths
Net Sales	119.81	95.99	24.8%	357.01	271.46	31.5%	378.58
Total Expenses	106.51	85.55	24.5%	313.86	243.36	29.0%	340.44
EBITDA	13.30	10.44	27.4%	43.15	28.10	53.6%	38.14
EBITDA (%)	11.1%	10.9%		12.1%	10.4%		10.1%
Interest Expenses / (Income)	(0.16)	(0.14)	14.3%	(0.60)	(0.41)	46.3%	(0.52)
Depreciation	1.80	1.71	5.3%	5.02	4.99	0.6%	6.92
Other Income	0.65	0.55	18.2%	4.88	2.23	118.8%	3.23
P.B.T. before Extra Ordinary Items	12.31	9.42	30.7%	43.61	25.75	69.4%	34.97
Extra Ordinary Income / (Exp.)	-	(0.08)		-	(0.17)		-
P.B.T. after Extra Ordinary Items	12.31	9.34	31.8%	43.61	25.58	70.5%	34.97
Net Profit	9.45	6.67	41.7%	31.06	17.55	77.0%	23.41
Equity Capital (Re. 1/-)	6.00	6.00		6.00	6.00		6.00
EPS for the period (Rs)	1.58	1.12	40.5%	5.18	2.94	75.8%	3.95

Disclosures

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