CRISIL Ratings

Rating Rationale

November 29, 2023 | Mumbai

Elgi Equipments Limited

Ratings reaffirmed at 'CRISIL AA/Stable/CRISIL A1+'

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Rating Action

Total Bank Loan Facilities Rated	**Rs.456 Crore**
Long Term Rating	**CRISIL AA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the bank loan facilities of Elgi Equipments Ltd (Elgi; part of the Elgi group).

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The ratings continue to reflect the healthy business risk profile of Elgi supported by its established market position sizeable distribution network both in domestic and export markets and adequate operating efficiencies. The established business position of Elgi is supported by strong brand recall for Elgi brand and its sizeable product profile serving diverse set of end user industries. Besides, the rating is also supported by Elgiâ€™s healthy financial risk profile. These strengths are partially offset by susceptibility to volatility in raw material prices and intense competition both in domestic and export market, moderately working capital intensive operations, modest albeit improving performance in European subsidiaries andÂ cyclical demand from certain end-user industries.

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Elgi registered a strong revenue growth of 20% in fiscal 2023 driven by healthy 21% growth in air compressor segment (92% of total revenues). The auto component, which accounts for ~8% of revenue, also witnessed steady growth of 16%. While the air compressor demand benefitted by healthy offtake across key export markets, auto component segment benefitted from pent up demand. Revenues registered a growth of ~7% during the firstÂ half of fiscal 2024 on-year basis. Revenue is expected to grow at 9-10% over the near to medium term supported by steady demand from key export markets such as the US and Europe and continued domestic growth momentum across diverse sectors including auto, pharma, power, mining, construction, FMCG, and healthcare.

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Operating profitability improved to 15.5% in fiscal 2023, from 12.8% in fiscal 2022 supported by moderation in raw material cost, sustained sales price realisation, stabilization in employee costs, improving operating performance and favorable mix. Operating profitability improved by 180 bps on-year to 15.1% in the first half of fiscal 2024, with stable input cost. Operating profitability is expected to sustain at 13.5-14% in near to medium term with better operating leverage, and continued cost rationalisation measures, ensuring strong cash generation.

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The financial risk profile was healthy supported by comfortable debt metrics. Gearing was at similar levels of 0.45 time as on March 31, 2023 despite increase in debt levels to Rs.506 crore from Rs.370 crore (at March 31, 2022), aided by steady cash accrual. Net worth was sizeable at Rs 1134 crore as on March 31, 2023 and is expected to exceed Rs.1300 crores by end March 2024. Steady annual cash accrual of Rs 300-400 crore, moderate annual capital expenditure (capex) plans of ~Rs.100-115 crore and prudent working capital management will gradually lower the reliance on external debt over the medium term, further strengthening the financial risk profile.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Elgi and its subsidiaries and joint-ventures due to operational and financial linkages. Together, these are known as Elgi Group

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position and strong brand:** With an estimated market share of over 20%, Elgi is the one of the largest manufacturer of compressors in India. Its product profile includes reciprocating, screw compressors sold under the Elgi brand through an entrenched channel, comprising dealers, direct sales and spare parts/after-sales segments. The group has dealerships across India and overseas markets, and enjoys a dominant market presence in Indian railway compressor segments. Its geographical presence is strengthened through subsidiaries in Europe, USA, Brazil, UAE, Australia and Indonesia.

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  Subsidiaries are also expected to continue their performance trajectory as the company strives to consolidate its position in each of the markets. The company is also using its growth plans in inorganic opportunities and has acquired distribution companies in key markets in the past decade, strengthening their position across various markets.

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- **Efficiently run operations:** The company has well-run manufacturing and assembly lines with focus on its core competence.Â Over the last decade company has been consistentlyÂ Â investing in capex in order to integrate backward to manufacture critical parts such as pressure vessels, castings, motors and key production machines indigenously which has given the company better control over the quality, efficiency , inventory and overall cost. Operations also benefit from in-house research and development (R&D) capabilities. Operating margin steadily improved to 15.5% from 12.8% in fiscal 2022 with increase in volumes and proactive cost control measures. Operating margins are expected to sustain between 13.5-14% over the medium term with better operating leverage , increasing proportion of higher margin product such as oil free compressors, after

market revenue and continued cost rationalisation measures.
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- **Healthy financial risk profile:** The financial risk profile is supported by modest debt, sizeable net worth of Rs.1100 crore as on March 31, 2023 and healthy cash generating ability, translating into healthy return on capital employed (RoCE, 31 % in fiscal 2023), and debt protection metrics. The companyâ€™s net profits also benefitted from the sale of non-core assets both in India and in overseas subsidiaries in fiscal 2023, which added to cash accruals. Gearing & Debt/EBIDTA has remained at similar levels of 0.45 times and 1.07 times respectively in fiscal 2023 despite increase in debt levels to Rs.506 crore at March 31, 2023, from Rs.370 crore on March 31, 2022 for working capital requirement of the subsidiaries. Interest coverage and net cash accrual to total debt ratios were healthy at 21 times and 0.81 time, respectively, in fiscal 2023. The company is expected to undertake annual capex of ~Rs.100crores, which along with incremental working capital needs can be comfortaby serviced from annual accruals of over Rs.300 crores. Hence, debt protection metrics will continue to remain at comfortable levels over the medium term.

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Â **Weaknesses:**
- **Exposure to risks relating to fluctuations in demand:** The group also caters to capital-intensive industries such as infrastructure, automotive and heavy engineering, and hence, depends on the overall economic growth in the domestic market. Product sales are dependent on capacity expansion/upgrades in end-user industry capacities and green field projects. A potential slowdown in industrial activity can lead to stagnation in revenue as witnessed between fiscals 2012,2015,2020 and 2021 due to covid related disruptions.

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- **High competitive intensity**: While capital cost for setting up a compressor manufacturing unit is not high due to the assembly nature of operations, technology plays a major role and acts as an entry barrier. Most large domestic players are subsidiaries of established international companies or have technical collaborations with global players. While the Elgi group, with its indigenous technology, has been able to retain a comfortable market share in the screw compressor segment, it faces stiff competition in the centrifugal segment, which is dominated by multi-national corporations.

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- **Moderate albeit improving operations of subsidiairies:** Operating profitability of Elgiâ€™s subsidiairies is gradually improving (7.4% in fiscal 2023 compared with 4.4% in fiscal 2022), but remains lower than the companyâ€™s standalone operating profitability. The improvement in operating profitability was driven by better operating leverage, with revenues benefitting from strong demand for the companyâ€™s products in Europe and USA in fiscal 2023. Losses at the European subsidiary have reduced, andÂ break-even is expected over the near to medium term. However, given sluggish economic growth outlook in Europe and USA, and high inflationary conditions, business performance of key subsidiairies operating in these subsidiairies will remain a monitorable.

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- **Moderately working capital intensive operations:** Elgiâ€™s operations are moderately working capital intensive. Owing to high revenue generation from international markets (~ 53% of revenue in fiscal 2023) and diverse product offerings, large inventory of 3 months is maintained; this is expected to continue at similar levels, given rising scale of operations and expansion into newer markets. Average gross current assets were at 176 days in the five fiscals ended March 31, 2023, and are expected at similar levels over the medium term.Â

Liquidity: Strong
Elgi has strong liquidity, driven by expected annual cash accrual of Rs. 300-400 crore over the medium term which is expected to be sufficient against term debt obligations of Rs.12 crore each fiscal 2024 and fiscal 2025 along with nominal capex and incremental working capital requirements. Further the company has a liquid surplus of over Rs 350 crore as of March 31, 2023. Besides, the company has additional cushion in the form of working capital lines of Rs. 482 crore which are also moderately utilized at 47% through 12 months ended Aug 2023
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ESG Profile of Elgi
CRISIL Ratings believes that Elgi Equipment Limitedâ€™s (Elgi) Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.
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Key ESG highlights:
- Energy conservation initiatives have resulted in a 12% decrease in companyâ€™s Energy intensity fromÂ 6.32 G Joule/Million of sale (fiscal 2021) to 5.66 G joule (fiscal 2022) andÂ to 5.43 g Joule (fiscal 2023)
- Increase in Specific Energy consumption(MwH/revenue) from 13.49 (fiscal 2022) to 7.31 (fiscal 2023)
- Increase in share of renewable energy from 5.51% (fiscal 2022) to 11.05% (fiscal 2023)
- Reduction in Specific water consumption (KL/Revenue) from 16.54 (fiscal 2022) to 12.04 (fiscal 2023)
- Increase in recycling rate from 50% (fiscal 2022) to 53.94% (fiscal 2023)
- Reduction in Hazardous waste generated (Tonnes/ Revenue) from 0.16 (fiscal 2022) to 0.04 (fiscal 2023)
- Reduction in Scope 1(tCo2e/revenue) from 6.44(tco2e/million of sale) to 5.35 in Fiscal 2023 and overall emission intensity reduced from 0.93 (fiscal 2022) to 0.87 (fiscal 2023)
- LTIFR has improved from 0.69 (fiscal 2022) to 0.44 (fiscal 2023)
- % of local suppliers by value increasing from 89.9% (fiscal 2022) to 91.6% (fiscal 2023)
- CSR as % of net profit has come down from 0.91% to 0.33%
- Attrition rate has increased from 13.5 to 15%
- All shareholders have equitable access to information and there is no evidence of insider trading in the past
- Over 50% of the board is of independent directors; There are nil independent directors with tenor greater than 10 years
- Company has strong internal control systems and processes

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There is growing importance of ESG among investors and lenders. Elgiâ€™s commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its high share of shareholding by foreign investors/companies.

Outlook: Stable
CRISIL Ratings believes the Elgi group's credit risk will continue to benefit from its established presence in the air compressors segment, improving revenue and customer diversity and its adequate operating profitability. Strong cash generation and prudent working capital management along with moderate capital spend, will ensure sustenance of healthy debt metrics over the medium term.

Rating Sensitivity factors
Upward factors:

- Stronger than expectedÂ revenue growth, also benefitting market share, and sustenance of operating profitability at above 15% resulting in better than anticipated cash generation.
- Sustenance of healthy financial risk profile and debt metrics; debt/EBITDA of less than 0.7-0.8 times, and build-up of cash surpluses

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Downward factors:

- Sluggish business performance, or high pricing pressure or material costs incurred for market expansion in new geographies, impacting profitability
- Higher than expected debt funded capex or acquisitions, or stretch in working capital cycle thereby weakening the key debt protection metrics (Debt/EBITDA of over 2-2.5 times)

About the Company

Elgi, based in Coimbatore, Tamil Nadu, was set up in 1960 and is one of India's prominent air compressor manufacturers. On a consolidated basis, EEL derives around 50% of its revenue from the domestic market and the rest from the overseas market. The company manufactures a range of reciprocating compressors, screw compressors and centrifugal compressors, and garage equipment for the automotive segment through its subsidiary, ATS Elgi Ltd.

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The group has trading and marketing arms in the US, Europe, Gulf, Brazil, Indonesia and Australia. On August 30, 2012, it acquired the entire stake in Caraglio-based Rotair, which designs, manufactures and distributes a variety of compressors and allied products to the construction and industrial sectors. On November 28, 2012, the group acquired the entire stake in Charlotte (US)-based Pattons, which distributes and assembles industrial compressors and air products.. It also has a captive foundry that commenced operations in 2013. In August 2018, the group acquired 100% stake in Sydney-headquartered F R Pulford and Son Pty Ltd which is engaged in distribution of industrial compressors. The recent acquisition of Michigan Air in December 2019 further strengthens its market position in the key North American market.

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Elgi reported net profit of Rs. 152 crore on operating income of Rs.1530 crore in the first half of fiscal 2024, compared with net profit of Rs. 121 crore on operating income of Rs. 1432 crore in the corresponding period of fiscal 2023.

Key Financial Indicators

As on/for the period ended March 31	Unit	2023	2022
Revenue	Rs crore	3053	2531
Profit after tax (PAT)	Rs crore	371	178
PAT margin	%	12.1	7.1
Adjusted debt/adjusted net worth	Times	0.45	0.46
Interest coverage	Times	21.12	26.90

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Cash credit	NA	NA	NA	33	NA	CRISIL AA/Stable
NA	Packing credit	NA	NA	NA	150	NA	CRISIL A1+
NA	Short Term Bank Facility@	NA	NA	NA	20.5	NA	CRISIL A1+
NA	Short Term Bank Facility	NA	NA	NA	197.5	NA	CRISIL A1+
NA	Letter of credit & Bank Guarantee^	NA	NA	NA	30	NA	CRISIL A1+
NA	Bank guarantee	NA	NA	NA	25	NA	CRISIL A1+

^Interchangeable with bill discounting

@Interchangeable between letter of credit and bank guarantee

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
ATS Elgi Limited	Full	Common management and promoters, similar line of business, and business and financial linkages
Adisons Precision Instruments Manufacturing Company Limited	Full	Common management and promoters, similar line of business, and business and financial linkages
Ergo Design Private Limited	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Sauer Compressors Limited	Proportionate (26%)	Common management and promoters, similar line of business, and business and financial linkages
Industrial Air Solutions LLP	Proportionate (50%)	Common management and promoters, similar line of business, and business and financial linkages
L.G. Balakrishnan & Bros (Firm)	Proportionate (98%)	Common management and promoters, similar line of business, and business and financial linkages
Elgi Equipments Australia Pty Limited	Proportionate (80%)	Common management and promoters, similar line of business, and business and financial linkages
Industrial Air Compressors Pty Ltd	Full	Common management and promoters, similar line

		of business, and business and financial linkages
F.R. Pulford & Son Pty Limited	Full	Common management and promoters, similar line of business, and business and financial linkages
Advanced Air Compressors Pty Ltd	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors USA Inc	Full	Common management and promoters, similar line of business, and business and financial linkages
Pattonâ€™s Inc	Full	Common management and promoters, similar line of business, and business and financial linkages
Pattonâ€™s Medical LLC.	Full	Common management and promoters, similar line of business, and business and financial linkages
Michigan Air Solutions LLC	Full	Common management and promoters, similar line of business, and business and financial linkages
Evergreen Compressed Air and Vacuum LLC**	Proportionate (50%)	Common management and promoters, similar line of business, and business and financial linkages
PLA Holding Company LLC**	Proportionate (50%)	Common management and promoters, similar line of business, and business and financial linkages
Compressed Air Solutions of Texas, LLC	Proportionate (50%)	Common management and promoters, similar line of business, and business and financial linkages
Pattons' of California LLC	Proportionate (50%)	Common management and promoters, similar line of business, and business and financial linkages
Gentex Air Solutions LLC	Proportionate (33.33%)	Common management and promoters, similar line of business, and business and financial linkages
G3 Compressors LLC	Proportionate (33.33%)	Common management and promoters, similar line of business, and business and financial linkages
CS Industrial services LLC	Proportionate (33.33%)	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors Italy S.R.L	Full	Common management and promoters, similar line of business, and business and financial linkages
Rotair SPA (Italy)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors Europe S.R.L (Belgium)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors Iberia S.L (Spain)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors NordicsÂ (Sweden)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors Eastern Europe sp. z.o.o (Poland)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors UK and Ireland Limited (UK)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors Southern Europe S.R.L (Italy)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors France SAS (France)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Gulf FZE(UAE)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Gulf Mechanical and Engineering Equipment Trading LLC (UAE)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors Do Brasil Imp. E. Exp LTDA (Brazil)	Full	Common management and promoters, similar line of business, and business and financial linkages
PT Elgi Equipments Indonesia (Indonesia)	Full	Common management and promoters, similar line of business, and business and financial linkages
Elgi Compressors (M) SDN. BHD(Malaysia)	Full	Common management and promoters, similar line of business, and business and financial linkages

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT/ST	401.0	CRISIL A1+ / CRISIL AA/Stable	Â	--	22-09-22	CRISIL A1+ / CRISIL AA/Stable	31-08-21	CRISIL A1+ / CRISIL AA/Stable	13-05-20	CRISIL AA/Negative / CRISIL A1+	CRISIL A1+ / CRISIL AA/Stable
Â	Â	Â	--	Â	--	Â	--	Â	--	04-05-20	CRISIL AA/Negative / CRISIL A1+	--
Non-Fund Based Facilities	ST	55.0	CRISIL A1+	Â	--	22-09-22	CRISIL A1+	31-08-21	CRISIL A1+ / CRISIL AA/Stable	13-05-20	CRISIL AA/Negative / CRISIL A1+	CRISIL A1+ / CRISIL AA/Stable
Â	Â	Â	--	Â	--	Â	--	Â	--	04-05-20	CRISIL AA/Negative / CRISIL A1+	--
Commercial Paper	ST	Â	--	Â	--	Â	--	Â	--	Â	--	Withdrawn

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating

Bank Guarantee	25	IndusInd Bank Limited	CRISIL A1+
Cash Credit	3	Central Bank Of India	CRISIL AA/Stable
Cash Credit	30	State Bank of India	CRISIL AA/Stable
Letter of credit & Bank Guarantee^	30	HDFC Bank Limited	CRISIL A1+
Packing Credit	150	HDFC Bank Limited	CRISIL A1+
Short Term Bank Facility	25	Citibank N. A.	CRISIL A1+
Short Term Bank Facility	37.5	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Short Term Bank Facility	50	ICICI Bank Limited	CRISIL A1+
Short Term Bank Facility	5	IndusInd Bank Limited	CRISIL A1+
Short Term Bank Facility	30	Citibank N. A.	CRISIL A1+
Short Term Bank Facility@	20.5	Central Bank Of India	CRISIL A1+
Short Term Bank Facility	50	Kotak Mahindra Bank Limited	CRISIL A1+

^Interchangeable with bill discounting
@Interchangeable between letter of credit and bank guarantee

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
CRISILs Criteria for Consolidation

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