Investment Idea

Asit C. Mehta
INVESTMENT INTERRMEDIATES LTD.

ISGEC Heavy Engineering Limited

Harnessing Technology. Sustaining Growth.

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Accumulate

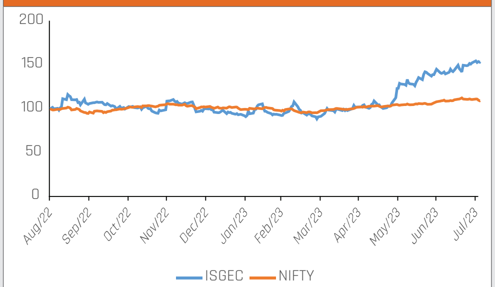
Key Data	
DATE	29.08.2023
Reco Price	695-705
Target	950
Sector	Capital Goods - Industrial Engineering
BSE Code	533033
NSE Code	ISGEC
EPS (FY23)	26.72
Face Value (Rs.)	1.00
Market Cap (Mn)	51,856
52-week High/Low (Rs)	767.00 / 418.25

Source : NSE, BSE

Shareholding pattern (June-2023)	%
Promoters	62.43
DIIs	8.17
FIIs	2.77
Public	26.61
Government	0.01
Total	**100.00**

Source : NSE, BSE

Price Performance



Rebase to 100

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ISGEC Heavy Engineering Limited

Company Background

ISGEC Heavy Engineering Limited (ISGEC), was incorporated as a public company under the ISGEC Group in 1933, manufactures heavy engineering equipment and provides related EPC/turnkey services. The Company's segments include manufacturing of machinery and equipment and engineering, procurement, and construction (EPC).

The manufacturing of machinery and equipment segment is engaged in manufacture of process plant equipment's, presses, castings, boiler tubes and panels and containers. The engineering, procurement and construction segment consists of projects and turnkey solutions for sugar plants, distilleries, power plants, boilers, air pollution control equipment's, buildings, and factories. The Company manufactures process plant equipment, mechanical and hydraulic presses, steel and iron castings, boiler pressure parts, and built-to-print equipment.

Outlook and Valuation

ISGEC Heavy Engineering Ltd. is a multi-product, multi-location public company that has been delivering engineering solutions to global customers for the past 90 years. The company holds a robust market position in the capital goods segment, along with several technology joint ventures (JVs) and strategic partnerships with international majors. With a track record spanning over 75 years in the industry, coupled with its capacity to adopt and indigenize technology, the company is well-positioned to drive growth in the future. Given these factors, we believe ISGEC Heavy Engineering Limited is well-equipped to capitalize on emerging opportunities. Looking ahead, **we anticipate a CAGR of ~12% in the company's revenue over FY23-FY26E.** Hence, we recommend ISGEC Heavy Engineering Limited with a target price of Rs 950, based on FY26E EPS of Rs 50.04, and a forward PE valuation multiple of 19. It currently trading at below 5 year Median PE valuation. It indicates a value BUY opportunity with growth potential at the current levels. Hence, **we recommend an ACCUMULATE rating for the long term.**

Financial Snapshot (Consolidated):

Particulars (in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23-FY26E)
Sales	63,990.40	69,749.54	78,526.99	89,094.42	11.66%
EBITDA	4,729.00	5,524.16	6,470.62	7,510.66	16.67%
EBITDA Margin %	7.39%	7.92%	8.24%	8.43%	
PAT (Adjusted)*	1,964.90	2,496.91	2,816.73	3,677.94	23.24%
PAT Margin %	3.07%	3.58%	3.59%	4.13%	
EPS (₹)	26.73	33.97	38.32	50.04	
D/E (x)	0.54	0.45	0.43	0.38	
ROE (%)	8.53%	10.09%	10.19%	11.70%	
ROCE (%)	5.55%	6.97%	7.10%	8.47%	

*PAT Adjusted includes excluding minority interest and exceptional items.
Source: Company, ACMIIL Retail Research

Company at a Glance

- Global Presence: Equipment Supply in 91 Countries
- Diversified Portfolio: Manufacturing, EPC, Sugar & Ethanol Segments Catering to Esteemed Clients
- Eminent Board and Management Team
- Strategic Technology Collaborations with Prominent Global Enterprises
- Sturdy Order Book & Solid Credit Profile (Rated AA Stable and A1+ by ICRA)

Company & Business Overview

ISGEC Heavy Engineering Limited is a diversified heavy engineering company engaged in manufacturing and project businesses with an extensive global presence.

Business Segments

A) Engineering Procurement and Construction (EPC)

The company possesses proven expertise in establishing captive and independent waste-to-energy power plants on an EPC basis. It has successfully executed power plant projects using various fuels, including Petcoke, Coal, Oil and Gas, Waste Heat Recovery, MSW-based fuels, among others. With a portfolio encompassing over 60 diverse power plant projects, the company has garnered experience in contracting for more than 1600 MW of power plants on an EPC basis. Additionally, the company features in-house manufacturing capabilities for key project equipment such as Boilers, ESP, Water Solutions, FGD, and more. It maintains EPC offices in Uttar Pradesh, Tamil Nadu, and Maharashtra.

B) Manufacturing of Machinery and Equipment

The company engages in the manufacturing of Boilers, Diffusers, and Process House Equipment for Sugar Plants, Refineries, and Distilleries. It also specializes in the operation and maintenance of Sugar, Co-generation, and Distillery Plants. Over the years, the company has successfully completed 180 Sugar/Distillery/Refinery Projects and has installed 720 cane-crushing mills across 49 countries globally. These achievements establish ISGEC as the world's largest supplier of sugar plants and machinery.

C) Sugar

ISGEC's roots trace back to the establishment of Saraswati Sugar Mills in 1933, with an initial sugarcane crushing capacity of 400 tonnes per day. Over time, it has evolved into one of India's largest sugar mills, currently crushing 13,000 tonnes per day. The company's manufacturing facility is situated in Yamunanagar, Haryana. Notably, in FY23, exports accounted for 13.2% of the total turnover, with the company allocating an export quantity of 32,447 tonnes of sugar.

Manufacturing Facilities

The company possesses 6 manufacturing facilities in India, comprising 4 in Haryana, 1 in Uttar Pradesh, and 1 in Gujarat. Additionally, the company maintains 2 overseas manufacturing facilities situated in Canada and the Philippines.

EPC Offices

The Company has 3 EPC offices in India including Uttar Pradesh, Tamil Nadu, and Maharashtra.

Company Caters to a wide range of Industries

Source: Company, ACMIIL Retail Research

Corporate Structure (Subsidiaries & Joint Ventures)

	Cavite Biofuel Producers Inc., Philippines *	Bioethanol Plant under construction in the Philippines

	Saraswati Sugar Mills Ltd., India	With cane crushing capacity of ~ 10000 TCD, Having highest sugar recovery in Punjab and Haryana for the past 10 years, Recently added 100 KLPD Ethanol unit
	Eagle Press & Equipment Co. Ltd., Canada	JV with Hitachi Zosen Corp., Japan to manufacture specialized & critical Process Equipment

	Isgec Titan Metal Fabricators Pvt. Ltd., India	JV with Titan Metal Fabricators, USA to manufacture corrosion resistant Process Equipment
	Isgec Hitachi Zosen Ltd., India	JV with Hitachi Zosen Corp., Japan to manufacture specialized & critical Process Equipment
	Isgec SFW Boilers Pvt. Ltd., India	JV with Amec Foster Wheeler (now Sumitomo SHI FW Energia, Oy, Finland) to engineer their Global Boiler Projects
	Isgec Redecam Enviro Solutions Pvt. Ltd., India	JV with Redecam, Italy to manufacture, test, & commission of Bag Filters

Source: Company, ACMIIL Retail Research

Investment Rationale

Continued Government Focus on Infrastructure Spending for Growth Opportunities:

The growth of the engineering sector hinges on the nation's infrastructure development, particularly in power, mining, oil and gas, refinery, steel, automotive, and consumer durables. ISGEC's substantial production base enables it to manufacture a diverse range of machinery and equipment, catering to industry segments ranging from defense, oil and gas, refinery, nuclear, chemical and petrochemicals, machine tools, consumer durables, fertilizers, automobiles, textiles, steel, cement, paper, construction, and mining. This diversity propels the company's growth momentum moving forward.

In-house Design & Manufacturing Capability and Synergies through Various JV's & Tie-ups:

ISGEC operates as an engineering, procurement, and construction (EPC) company and an equipment/machinery fabricator in the capital goods sector. This is supported by its long-term technical tie-ups/alliances with several globally recognized heavy engineering companies, coupled with its in-house design and manufacturing capability. The company's revenue visibility over the medium to long term is well-diversified across industry segments, customers, and geographies, encompassing a broad spectrum of product segments.

Market Leadership:

The company asserts its leadership by holding the No. 1 / No. 2 position in most business lines, including Hydraulic and Mechanical Presses, Sugar Plants, CFB Boilers (Circulating Fluidized Bed), Traveling Grate Boilers, Liquefiable Gas Containers, Process Equipment Fired Boilers, Oil and Gas Boilers Bubbling, Bed Boilers, and Large Steel Castings made to order. Additionally, in 2021, the company ranked 253 among Fortune 500 companies operating in the EPC segment.

Strong Manufacturing Capabilities for Competitive Advantage:

Formerly known as Saraswati Industrial Syndicate Ltd., ISGEC manufactures and markets heavy engineering equipment, mechanical and hydraulic presses, and castings. The company also produces process plant equipment, such as reactors, high-pressure vessels, shell and tube exchangers, columns and towers, high-pressure boiler drums, and boiler pressure parts. Their product range includes presses, including mechanical and hydraulic straight-sided presses and mechanical gap frame presses; as well as boilers, encompassing dump grate boilers, traveling grate boilers, atmospheric fluidized bed combustion boilers, circulating fluidized bed combustion boilers, oil/gas-fired boilers, waste heat recovery boilers, deaerators, and related spare parts.

Focus on Philippines Project to Enhance Ethanol Production:

Construction progress at the Cavite Biofuels' ethanol plant in the Philippines remains steady, although intensive rains over recent months have slightly affected the pace of work. The plant is expected to be completed, undergo a test run for ethanol production from molasses by September 2023, and commence commercial production in November 2023. Management anticipates generating annual revenue from January 2024 in the range of INR 5 billion to 5.5 billion.

Established Position as a Leading EPC Player:

With captive manufacturing and fabrication facilities spanning key product segments such as presses, boilers, and process equipment, ISGEC benefits from synergies with its EPC segment, distinguished by sound design and execution capabilities.

ESG Footprints:

The company continually takes initiatives to incorporate Environmental, Social, and Governance (ESG) principles throughout its operations and value chain. Over the years, the company has actively reduced its carbon footprint, making its ongoing operations more sustainable in a highly carbon-efficient manner.

Additional Key Growth Drivers

- The government's announcement for new thermal power plants, likely to come up by 2030, will provide opportunities in the Ash Handling business due to the scarcity of contractors and technology providers. ISGEC has entered into a technical collaboration with a US company for this product.
- The company expects revenue growth to be in double digits this financial year, with different products having varying execution timelines.
- ISGEC's slow-moving, long-duration projects will progressively decrease, leading to potential margin improvements and a reduction in working capital in the coming quarters.
- The company is not observing any unusual movements with respect to oil and gas orders and anticipates orders from sectors like specialty chemicals, cement, and automobiles.
- The Philippines has a 10% blending requirement for ethanol, yet the country's existing production is only about 5%, creating a shortage in ethanol demand that the company will be addressing.
- The company has crossed the INR 2,000 crore annual mark in the manufacturing business with double-digit growth rates and foresees similar growth in the future.
- The order book position is favorable. Consolidated orders in hand as of June 30, 2023, amount to Rs. 8,422 crore (75% is for the project business and 25% is for the manufacturing business).
- The Eagle Press subsidiary did not perform well last year due to low order bookings, but sales have improved, and the company anticipates a turnaround this year.
- At Saraswati Sugar Mills, ISGEC has completed the expansion of its ethanol plant capacity from 100 KLPD to 160 KLPD, with the expanded capacity becoming operational on June 18, 2023.

Company's Strong Marquee Clients

Source: Company, ACMIIL Retail Research

Industry Overview

India's Capital Goods manufacturing industry serves as a robust foundation for engagement across sectors such as Engineering, Construction, Infrastructure, and Consumer Goods, among others. The engineering sector is the largest among the industrial sectors in India and holds immense strategic importance for the country's economy due to its close association with manufacturing and infrastructure. India exports transport equipment, capital goods, other machinery/equipment, and light engineering products such as castings, forgings, and fasteners to various countries around the world. The demand for services in the engineering sector is being driven by capacity expansion in various industries such as cement, automotive and auto ancillaries, electricity, mining, oil and gas, refinery, steel, chemicals, sugar, and consumer durables. India maintains a competitive advantage in terms of manufacturing costs, market knowledge, technology, and innovation in various engineering sub-sectors.

The engineering sector in India has experienced remarkable growth in recent years. Furthermore, the Indian government's policies and reforms aimed at boosting manufacturing, such as the Make in India initiative and the Production-Linked Incentive (PLI) schemes, are beginning to yield positive outcomes. These initiatives are expected to contribute to the overall sustainable GDP growth of the country throughout this decade, as noted by many experts.

In June 2023, India's Manufacturing Purchasing Managers' Index (PMI) recorded a robust figure of 58.5, reaching a level close to its highest point. This indicates strong manufacturing activities supported by overall demand and order inflow across various sectors. Such public capex initiatives and government policies are expected to stimulate private capex revival across industries and contribute to the overall GDP growth of the country. The government has also introduced several policies aimed at promoting the adoption of environmental solution technologies in new capex projects across industries. Additionally, incentives and schemes have been implemented to encourage the use of renewables and alternative energy sources in industries, along with importation benefits.

The engineering industry is diversified and broadly categorized into two major segments - heavy engineering and light engineering. Most of the leading players are engaged in the production of heavy engineering goods. The expected expansion of the heavy engineering industry can be attributed to increased demand and capacity expansion in end-user industries such as infrastructure, power, mining, oil & gas, refinery, steel, automobiles, and consumer durables. The heavy engineering industry is one of the largest and key sectors in the world. It produces machinery, capital goods, as well as components and parts for various industries. The global machinery market grew from USD 3,542.77 billion in 2022 to USD 3,810.37 billion in 2023 and is expected to reach USD 4,928.07 billion in 2027.

Key Industry Growth Drivers

- The government's robust push towards infrastructure development, with an allocation of ₹10 lakh crores in the Union Budget 2023-24, will create lucrative opportunities for the heavy engineering industry.
- The Union Environment Ministry's directive for thermal power plants to install pollution control technologies and adhere to new emission norms by December 31, 2026, is likely to result in increased demand for emission control equipment.
- India's emphasis on green energy, highlighted by the G20 Presidency and an outlay of ₹19,700 crores for the recently launched National Green Hydrogen Mission, will enhance focus on hydrogen projects.
- To meet India's rising energy demand, the Oil & Gas industry is projected to attract investments nearing $250 billion in the next 10 years.
- The Ethanol Blending Programme (EBP) aims to achieve 20% blending by FY2025-26. This requirement calls for an additional 700 crores liters of ethanol production annually, creating significant opportunities for businesses in Boilers, Sugar Plants, and Distilleries.

Investment Idea

Story in Charts (Values in Mn.)

Exhibit 1: Sales Growth

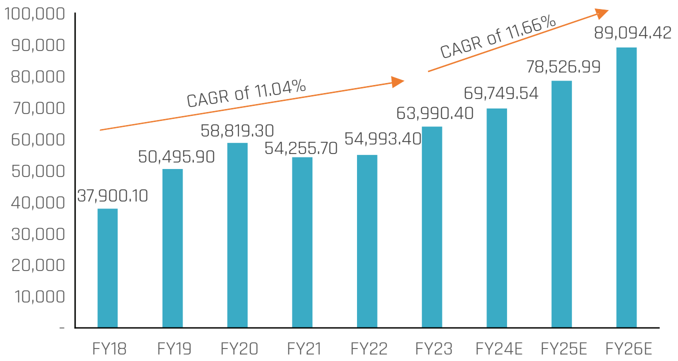


Exhibit 2: EBITDA & EBITDA Margin (%)

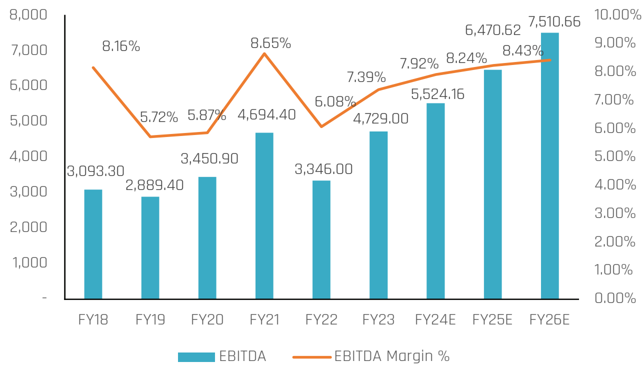


Exhibit 3: PAT & PAT Margin (%)

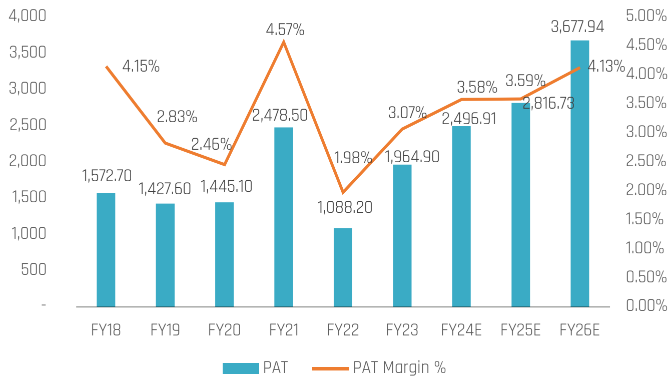


Exhibit 4: Segment wise breakup

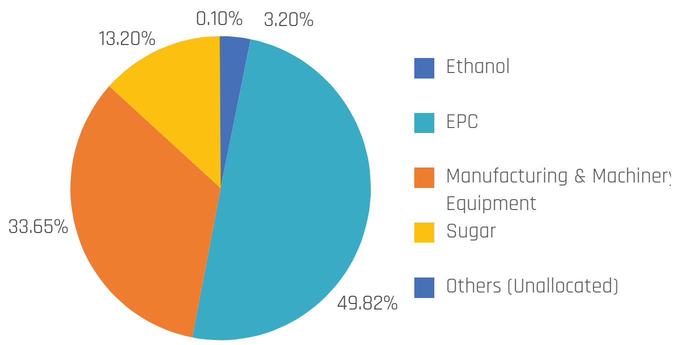
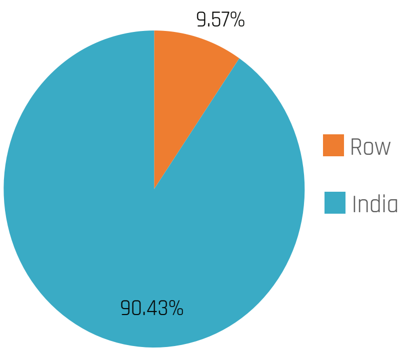


Exhibit 5: Location wise breakup



Source: Company, ACMIIL Retail Research

Financial Statements

Consolidated Profit & Loss Statement:

Particulars (in Mn.)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	37,900.10	50,495.90	58,819.30	54,255.70	54,993.40	63,990.40	69,749.54	78,526.99	89,094.42
Expenses	34,806.80	47,606.50	55,368.40	49,561.30	51,647.40	59,261.40	64,225.37	72,056.37	81,583.76
EBITDA	**3,093.30**	**2,889.40**	**3,450.90**	**4,694.40**	**3,346.00**	**4,729.00**	**5,524.16**	**6,470.62**	**7,510.66**
EBITDA Margin %	**8.16%**	**5.72%**	**5.87%**	**8.65%**	**6.08%**	**7.39%**	**7.92%**	**8.24%**	**8.43%**
Other Income	564.20	653.20	313.70	516.20	127.00	122.20	220.00	230.00	250.00
Depreciation	807.50	824.80	1,011.90	1,008.60	1,013.60	1,043.00	1,264.40	1,727.84	1,598.92
Interest	339.40	448.40	608.20	643.90	878.40	907.90	822.14	864.72	840.70
PBT	**2,510.60**	**2,269.40**	**2,144.50**	**3,558.10**	**1,581.00**	**2,900.30**	**3,657.62**	**4,108.07**	**5,321.04**
Tax	826.50	829.30	653.20	1,027.50	431.10	844.90	1,060.71	1,191.34	1,543.10
PAT	1,684.10	1,440.10	1,491.30	2,530.60	1,149.90	2,055.40	2,596.91	2,916.73	3,777.94
PAT (Adjusted)*	**1,572.70**	**1,427.60**	**1,445.10**	**2,478.50**	**1,088.20**	**1,964.90**	**2,496.91**	**2,816.73**	**3,677.94**
PAT Margin %	**4.15%**	**2.83%**	**2.46%**	**4.57%**	**1.98%**	**3.07%**	**3.58%**	**3.59%**	**4.13%**
EPS	21.40	19.42	19.66	33.72	14.81	26.73	33.97	38.32	50.04
D/E	0.13	0.20	0.56	0.49	0.58	0.54	0.45	0.43	0.38

*PAT Adjusted includes excluding minority interest and exceptional items.
Source: Company, ACMIIL Retail Research

Risks and Concerns

- Rise in commodity prices (particularly metals) may impact execution and margins.
- Economic slowdown due to external and internal factors can affect the overall GDP growth of the country.
- Any unexpected change in government policies and regulations.
- Supply chain disruption due to prevailing geopolitical risks is expected to impact the company's financials.

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