INVESTMENTZ
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BY ASIT C. MEHTA

ISGEC Heavy Engineering Ltd

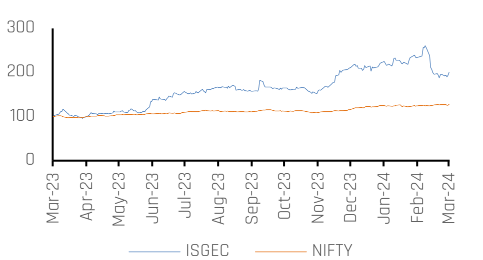
Engineering a Sustainable Future

ACCUMULATE

Key Data	
DATE	05-03-2024
Reco Price	920-930
Target	1,170
Sector	Capital Goods - Industrial Engineering
BSE Code	533033
NSE Code	ISGEC
EPS (2023)	26.53
Face Value (Rs.)	1.00
Market Cap (Mn)	68,099.40
52-week High/Low (Rs)	1,178.00/418.25

Shareholding pattern (December 2023)	%
Promoters	62.43
DIIs	8.73
FIIs	3.53
Public	25.30
Government	0.01
Total	100.00

Price Performance



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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 with an extensive global presence. 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 1,170, based on FY26E EPS of Rs 50.04, and a forward PE valuation multiple of 23.4x. It looks like a value buy with growth potential for medium to long-term investment. Hence, we recommend an ACCUMULATE rating for the long term.

Financial Snapshot

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	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 (₹)	26.53	33.97	38.32	50.04	
D/E (x)	0.54	0.45	0.43	0.38	

Source: Company, ACMIIL Retail Research

Company at glance

- Diversified Heavy Engineering Company with wide Spectrum of User Industries.
- Global Presence: Equipment Supply in 91 Countries across 6 continents.
- Diversified Portfolio: Manufacturing, EPC, Sugar & Ethanol Segments Catering to Esteemed Clients.
- Strategic Technology Collaborations with Prominent Global Enterprises.
- Robust Order Book, with strong credit profile.

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 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.

This Segment also consists of manufacture of Presses, Contract Manufacturing (built-to-print and built-to specifications), Process Plant Equipment, Liquefied Gas Containers, Boiler Pressure Parts & Piping Spools, and Iron & Steel Castings.

Company's products under this segment involve significant level of intellectual property in terms of design, particularly, Mechanical design, Thermal design, Pneumatics, Electrical, design, instrumentation and tribology. In addition, its products involve elaborate fabrications, welding, machining and assembly skill and skills related to foundry products.

ISGEC has a strong production facility to manufacture machinery and equipment to serve diverse industry segments ranging from defense, oil and gas, refinery, nuclear, chemical and petrochemicals, consumer durables, fertilisers, automobiles, textiles, steel, cement, paper, construction, and mining, etc.

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 Yamuna nagar, 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 & EPC Offices

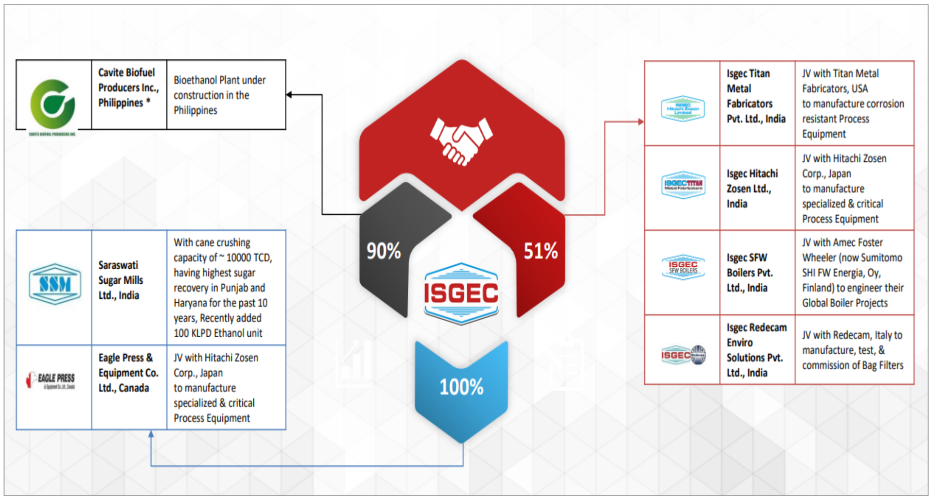
The company possesses 6 manufacturing facilities in India, comprising 4 in Haryana, 1 in Uttar Pradesh, and 1 in Gujarat. Additionally, the company maintains 2 overseas manufacturing facilities situated in Canada and the Philippines. The Company has 3 EPC offices in India including Uttar Pradesh, Tamil Nadu, and Maharashtra.

Company Caters to a wide range of Industries

Power	Defense	Fertilizer	Sugar	Oil	Gas	Petrochemicals	Automobile components	Steel	Cement

Source: Company, ACMIIL Retail Research

Corporate Structure (Subsidiaries & Joint Ventures)



Source: Company, ACMIIL Retail Research

Investment Rationale

Strategic Role in Fulfilling Renewable Energy Mandates:

The private capex revival is expected to benefit heavy industry companies as they seek to comply with renewable energy norms outlined by Environmental, Social, and Governance (ESG) standards. This transition not only underscores their commitment to sustainability but also translates into substantial cost savings on power consumption. Consequently, ISGEC is poised to provide tailored solutions to meet these evolving needs by offering Engineering, Procurement, and Construction (EPC) services coupled with advanced manufacturing capabilities. This strategic alignment enables ISGEC to cater to the growing demand for renewable energy solutions within the industrial sector, facilitating sustainable growth for both ISGEC and its clients.

Leveraging Private Capex Revival:

The combination of increased government spending, various policies & reforms and private sector revival bodes well for the company's future growth prospects. ISGEC's substantial production capabilities 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. The Company continuously works on improving designs and technology of its products and value engineering to make its products competitive and value for money by way of JV's.

Company's growth in the engineering sector is propelled by strategic tie-ups and technical collaborations with leading foreign manufacturers. These partnerships, tailored for specific product needs in the Indian market, enhance ISGEC's competitiveness. Moreover, the company's long-term alliances with globally renowned heavy engineering firms, alongside its in-house design and manufacturing capabilities, further solidify its position. This collaborative approach enables ISGEC to offer a diverse range of high-quality machinery and equipment across multiple industry segments, fueling its growth momentum. 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 2023, the company ranked 294 among Fortune India 500 companies operating in the EPC segment.

20% Ethanol Blending Programme to expand horizons:

The Government of India's Ethanol Blending Programme (EBP) aims to achieve 20% blending rate by FY2025-26, there's a need for an additional 700 crore liters of ethanol production annually. This presents substantial opportunities for ISGEC in the future to grow revenue from sugar and Ethanol verticals. Additionally, it will promote environmental sustainability, fostering growth and competitiveness.

Strong Global Presence: Engineering Solutions across Borders

With over 80 years of rich history, Operating in 91 Countries, ISGEC stands as a stalwart in the engineering domain. It's offering a comprehensive suite of products and services to clients across the globe.

- Process Equipment operations span across USA, Oman, UAE, Kuwait, Qatar, Mexico, China, Denmark, Australia & Japan.
- EPC Projects are undertaken in Kenya, Uganda, Sierra Leone, the Philippines, Saudi Arabia & Colombia.
- Industrial & Utility Boilers are installed in Brazil, Colombia, the Philippines, Spain, Thailand, Guatemala, Zambia, Sudan, Senegal & China.
- Sugar Plants & Distilleries are strategically located across key sugar cane producing regions including Kenya, Sierra Leone, Senegal, Sudan, Uganda, Zambia, Mozambique, the Philippines & Vietnam.
- Metal Forming Presses serve the automobile sector in Germany, Spain, Brazil, the USA, France, Mexico, South Africa & China.
- Castings supplied globally to Japan, Germany, the USA, Argentina, Brazil, the Czech Republic & Italy.

Strong Product Portfolio to give an edge:

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.

Philippines Project to Enhance Ethanol Production:

The Philippines project, the construction of the Cavite Biofuel Ethanol projects in the Philippines has been completed. Full-scale trial production of ethanol from sugarcane has started from 30th January 2024. Certificate of accreditation has been received from the Department of Energy, Government of Philippines to operate the plant. Commercial production has already been started. This Ethanol plant in the Philippines is expected to have an annual revenue of Rs.530-550 Cr. and EBITDA of around INR 140-145 Cr.

Established Position as a Leading EPC Player:

ISGEC is having captive manufacturing and fabrication facilities spanning key product segments such as presses, boilers, and process equipment. The Company benefits from synergies with its EPC segment, distinguished by sound design and execution capabilities. It executes wide range of projects on turnkey basis for Boilers, Air Pollution Control Equipment, Sugar Plants & Machinery and Distilleries, Power Plant Solutions, Bulk Material Handling Systems, Process Plants, Projects for installation of Factories & Workshops for Railways and other Projects.

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 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.
- ISGEC is optimistic on the margin expansion in EPC and Manufacturing segment in FY25.
- Due to lower quota allocation by the government and ban on export of sugar may affect company's performance in sugar business in near term but long term outlook remains positive.
- The company will be installing some additional plants and machinery to enable its plant to produce ethanol from C-heavy molasses, which will be requiring investment of Rs. 17 crore that will be incurred through internal accrual.
- 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.
- Inquiries for orders are being received from all sectors, indicating the company's anticipation of new order inflows in the upcoming quarters.
- 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 Company is having lot of opportunity on CBG (Compact Biogas) and Green hydrogen in Renewable Energy Space.
- The order book position is favorable. Consolidated orders in hand as of December 31, 2023, amount to Rs. 85, 840 Mn (50% is for the EPC business, 34% is for the manufacturing business and 16% for Sugar & Ethanol business).
- Saraswati Sugar Mills, the sugar factory started crushing operations from 31st October 2023. Manufacturing of refined sugar also started. The plant has been operating at full capacity and its refined sugar has been well accepted in the market. The ethanol plant is also operating at full capacity of 160 KLPD.

Company's Strong Marquee Clients (Put logo of all those clients)

Dalmia Bharat	एनटीपीसी NTPC	TATA	RITES THE INFRASTRUCTURE PEOPLE	vedanta transforming for good	इंडियनऑयल IndianOil	MARUTI SUZUKI
TOSHIBA	adani wilmar For a healthy growing nation	Bharat Petroleum	TOYOTA	सेल SAIL	DCM SHRIRAM Growing with trust	SIEMENS
ABB	Reliance Industries Limited	गेल GAIL	ADITYA BIRLA GROUP	L&T	हिन्दुस्तान पेट्रोलियम HP	Ford

Source: Company, ACMIIL Retail Research

Order Book as at end of FY23 (In Rs. Mn)

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.

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 government's emphasis on ESG standards and carbon emissions, coupled with increased public capex presents significant opportunities for companies under heavy industries. This focus on sustainability not only improves corporate responsibility but also drives competitiveness in the market. As companies adapt to meet these standards, it stand to benefit from a supportive regulatory environment and emerging opportunities in the green economy. 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. Additionally, incentives and schemes have been implemented to encourage the use of renewables and alternative energy sources in industries.

Indian Power Market size in terms of installed base is expected to grow from 492.86 gigawatt in 2024 to 752.90 gigawatt by 2029, at a CAGR of 8.80% during the forecast period (2024-2029). The Indian power sector employs a wide range of fuel sources, including traditional sources such as coal, oil, and gas, alongside environmentally sustainable sources such as solar, wind, biomass, industrial waste, and both large and small hydro plants. With a population of approximately 1.4 Bn and the world's fastest major growing economy, India's energy demand is growing rapidly. A catalyst for power industry growth, infrastructure development initiatives focus on expanding and modernizing power generation, transmission, and distribution networks. These efforts aim to meet rising energy demands, integrate renewable sources, and enhance overall efficiency. Investment in smart grids and digital technologies contributes to improved grid management, reducing losses. Beyond advancing the power sector, these initiatives create ancillary opportunities, stimulate economic growth, and generate employment. In summary, infrastructure development serves as a cornerstone for building a resilient, efficient, and sustainable power ecosystem.

The Ministry of Coal is planning to offer coal at a notified price for coal gasification projects to boost the sector. This move aims to ensure that the industry does not face a shortage of coal. Coal gasification is a process that converts coal into synthesis gas, which is cleaner than coal combustion. The Union Cabinet has approved a coal and lignite gasification programme with viability gap funding worth Rs 8,500 crore for both public and private sectors.
This process not only enhances energy security but also promotes resource efficiency and economic development, particularly in regions abundant in coal reserves. Furthermore, coal gasification facilitates the implementation of carbon capture and utilization technologies, contributing to environmental sustainability and mitigating greenhouse gas emissions. Overall, coal gasification presents companies with opportunities for innovation, cost-effectiveness, and environmental stewardship.

Carbon Capture, Utilization, and Storage (CCUS) policies incentivize companies to adopt technologies that capture and store carbon emissions, ensuring compliance with regulations, mitigating carbon costs, enhancing CSR, accessing funding and investment, managing climate-related risks, driving technological innovation, and contributing to long-term sustainability goals, thus fostering a transition to a low-carbon economy and enhancing business competitiveness in a carbon-constrained world. These incentives are anticipated to unlock significant opportunities for the industry, particularly in developing new product lines like green ammonia, green urea, and green hydrogen. CCUS is recognized as a crucial strategy in the global fight against climate change, offering a way to reduce emissions and enable oil and gas companies to utilize captured CO_2 for enhanced oil recovery (EOR) or chemical production.

Key Industry Growth Drivers

- The government's robust push towards infrastructure development, with an allocation of ₹11.11 lakh crores in the Interim Budget 2024-25, will create lucrative opportunities for the heavy engineering industry. 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 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.
- The Indian Renewable Energy market is projected to increase from 326.90 billion kilowatt-hours (Bn KWh) in 2024 to 428.54 Bn KWh in 2028, at a CAGR of 7.01% during the forecast period (2024-2028).
- The Union Cabinet, chaired by the Hon'ble Prime Minister Shri Narendra Modi, has approved National Green Hydrogen Mission where the initial outlay for the mission will be Rs.19,744 crore. This presents a transformative opportunity for industries and companies to embrace sustainable practices and drive India's transition towards a greener future.
- To meet India's rising energy demand, the Oil & Gas industry is projected to attract investments nearing $250 billion in the next 10 years.
- Government has also issued Green bonds which are debt instruments that raise capital to finance environmental or climate-related projects. It is specifically designed for financing and refinancing environmental projects that have positive effects on the environment or the climate such as the use of renewable energy, energy efficient transportation, clean energy, sustainable water management and the reduction of greenhouse gas emissions. Thus, this move to gain traction in coming years as the country looks to reduce its carbon footprint and transition to a more sustainable economy.

Story in Charts (Values in Mn.)

Exhibit 1: Revenue Growth

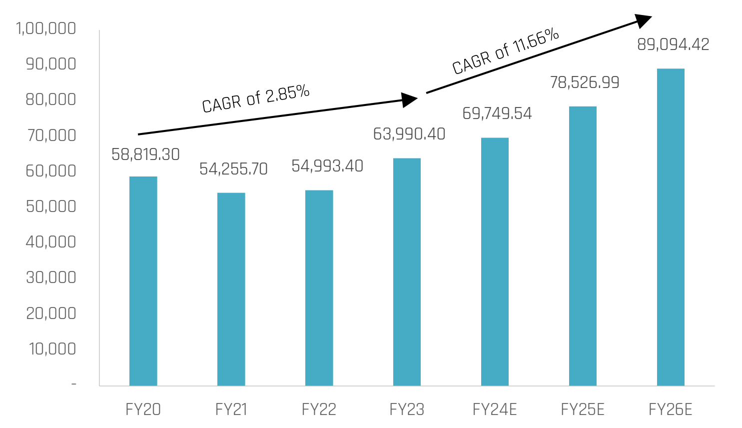


Exhibit 2: EBITDA & EBITDA Margin %

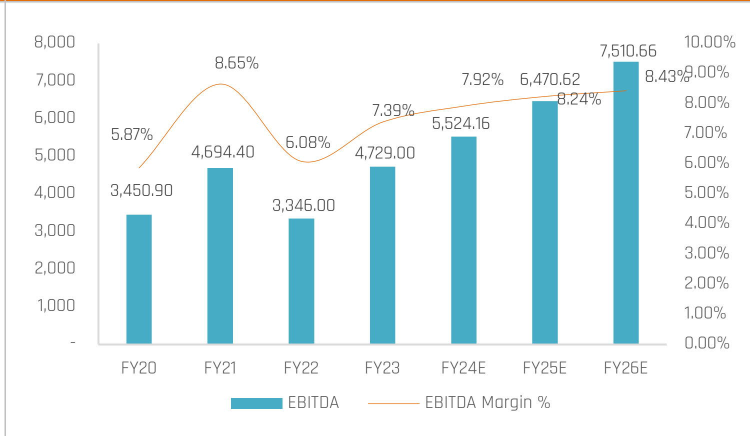


Exhibit 3: PAT & PAT Margin %

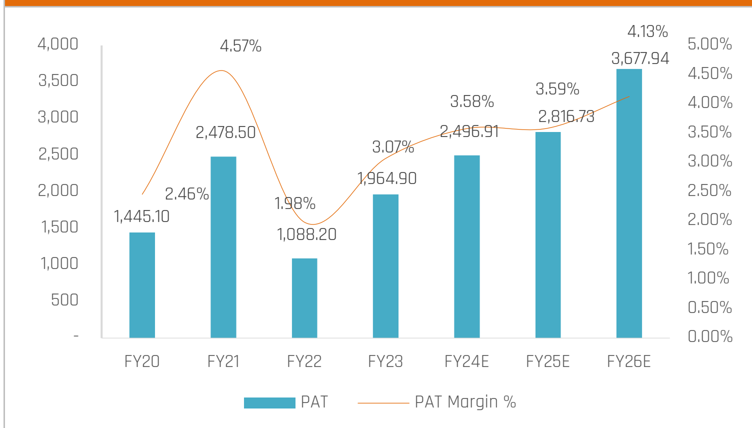


Exhibit 4: Segmental Revenue (FY23)

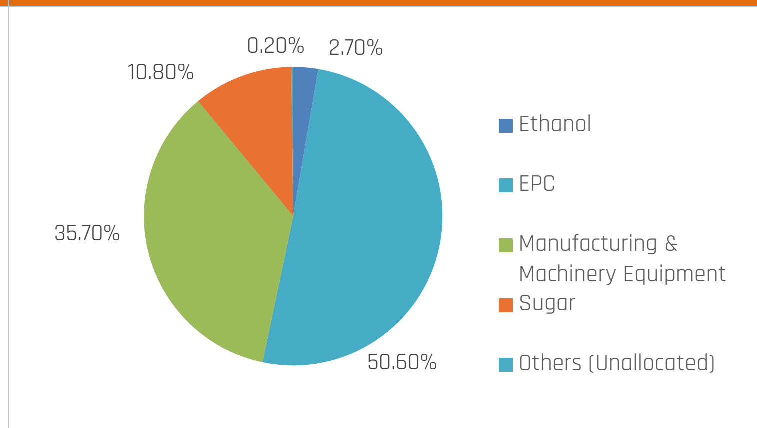
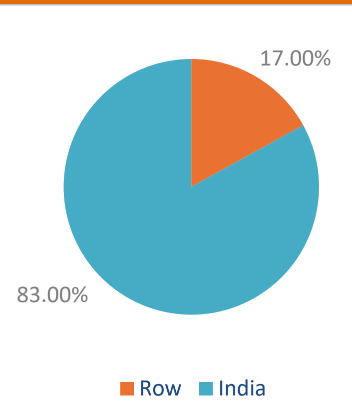


Exhibit 5: Geographical Revenue (FY23)



Source: Company, ACMIIL Retail Research

Financial Statements

Consolidated Profit & Loss Statement:

Particulars (in Mn.)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	58,819.30	54,255.70	54,993.40	63,990.40	69,749.54	78,526.99	89,094.42
Expenses	55,368.40	49,561.30	51,647.40	59,261.40	64,225.37	72,056.37	81,583.76
EBITDA	**3,450.90**	**4,694.40**	**3,346.00**	**4,729.00**	**5,524.16**	**6,470.62**	**7,510.66**
EBITDA Margin %	**5.87%**	**8.65%**	**6.08%**	**7.39%**	**7.92%**	**8.24%**	**8.43%**
Other Income	313.70	516.20	127.00	122.20	220.00	230.00	250.00
Depreciation	1,011.90	1,008.60	1,013.60	1,043.00	1,264.40	1,727.84	1,598.92
Interest	608.20	643.90	878.40	907.90	822.14	864.72	840.70
PBT	**2,144.50**	**3,558.10**	**1,581.00**	**2,900.30**	**3,657.62**	**4,108.07**	**5,321.04**
Tax	653.20	1,027.50	431.10	844.90	1,060.71	1,191.34	1,543.10
PAT	1,491.30	2,530.60	1,149.90	2,055.40	2,596.91	2,916.73	3,777.94
PAT (Adjusted)*	**1,445.10**	**2,478.50**	**1,088.20**	**1,964.90**	**2,496.91**	**2,816.73**	**3,677.94**
PAT Margin %	**2.46%**	**4.57%**	**1.98%**	**3.07%**	**3.58%**	**3.59%**	**4.13%**
EPS	19.66	33.72	14.81	26.73	33.97	38.32	50.04
D/E	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 may impact business performance.
- 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 may impact the company's business performance.

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Budget Report	Stock Basket
Weekly Derivatives Synopsis	Mutual fund model portfolios
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