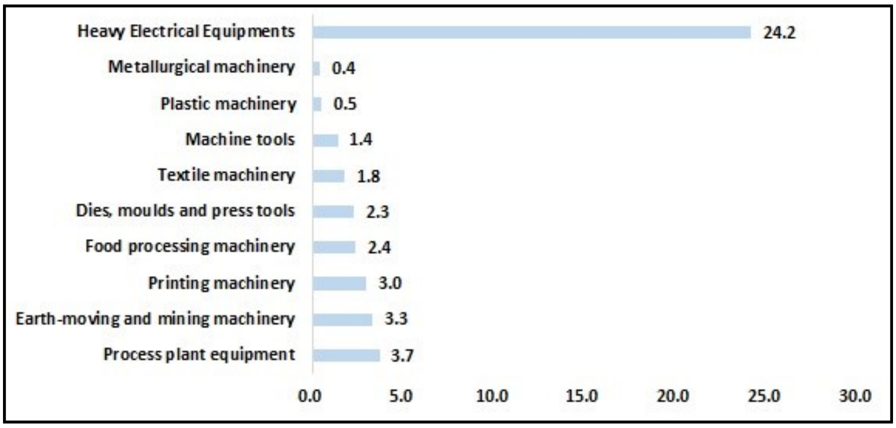
Oct 14, 2021	PICK OF THE MONTH	VOL-7, NO-11
Industry: Industrial Machinery	**ISGEC Heavy Engineering Limited**	**BUY**
CMP: Rs.712	**TARGET PRICE: Rs.832**	**TIME : 12 months**

Industry Overview:

The engineering sector is one of the largest components of the industrial sector in India. There has been a remarkable growth witnessed, led by the increased investments in infrastructure and industrial production. As it is closely associated with the manufacturing and infrastructure sector; it plays a strategic role in boosting growth of the Indian economy. With the robust demand and opportunities, India is inching towards becoming the third largest construction market, which would need investments to the tune of ~USD777.7bn (As per IBEF). Even before the pandemic, global trade was going through tough times owing to several trade issues including the US-China trade war. As a result, several countries are on the verge of de-globalising or adopting a much more protectionist stance as a safeguarding measure against any future shocks. Therefore, in the post-pandemic situation, countries are expected to reshuffle their supply base and increase their dependency on local production. In India, too, the government has been urging industries to make their supply chains local through 'Atmanirbhar Bharat' or a self-reliant India route in order to lessen India's dependency on imports and encourage manufacturing products locally. The capital goods industry in India has a market size of USD43.2bn where electrical equipment is the largest sub-sector followed by Plant Equipment and Earthmoving/ Mining machinery.

Companies engaged in the engineering sector are virtually on a roll. Capacity creation in sectors like infrastructure, power, mining, oil & gas, refinery, steel, automotive, and consumer durables have been driving the demand for the engineering sector. Separately, the approval of significant number of Special Economic Zones (SEZs) across the country and the development of the Delhi-Mumbai Industrial Corridor (DMIC) across seven states is expected to further bolster the engineering sector.

Exhibit 01: Market Size of major capital goods subsectors (USDbn)



Source: investindia.gov.in/sector/capital-goods, Progressive Research

Sectors Growth Drivers:

- Capacity creation in sectors such as infrastructure, power, mining, oil and gas, refinery, steel, automotive and consumer durables
- Nuclear capacity expansion to provide significant business opportunities in the electrical machinery industry
- GOI plans to invest USD1.5tn during 2019-23E on infrastructure
- De-licensed engineering sector; 100% FDI permitted
- In March 2020, GOI approved the Production Linked Incentive Scheme (PLI) for large-scale manufacturing of electronics
- The government expanded the National Infrastructure Pipeline (NIP) to 7,400 projects. ~217 projects worth USD15.09bn were completed as of 2020

SNAPSHOT	
52 week H / L	**Mcap (INR mn)**
877/231	52,324
Face value: 1	
BSE Code	**NSE CODE**
533033	ISGEC

Annual Performance				
(Rs mn)	**FY19**	**FY20**	**FY21**	**FY22E**
Total Revenue	50,507	58,521	54,256	63,131
EBITDA	2,662	2,947	4,550	5,050
EBITDA (%)	5.3	5.0	8.4	8.0
Other Income	688	620	518	518
Interest	255	411	502	495
Depreciation	825	990	1,009	1,031
PBT	2,269	2,165	3,556	4,042
PAT	1,440	1,507	2,531	3,015
Equity (Rs mn)	74	74	74	74
EPS (INR)	19	20	34	41

Quarterly Performance				
Parameters (Rs mn)	**Sept-20**	**Dec-20**	**Mar-21**	**June-21**
Sales (Net)	13,446	13,925	16,177	11,284
EBITDA	1,404	1,006	1,216	482
EBITDA (%)	10.4	7.2	7.5	4.3
Other Income	70	310	98	51
Interest	139	93	142	112
Depreciation	265	258	216	239
PAT	785	648	679	132
Equity (Rs mn)	74	74	74	74

Ratio Analysis				
Parameters (Rs mn)	**FY19**	**FY20**	**FY21**	**FY22E**
EV/EBITDA (x)	20.4	20.4	13.1	11.9
EV/Net Sales (x)	1.1	1.0	1.1	1.0
M Cap/Sales (x)	1.0	0.9	1.0	0.8
M Cap/EBITDA (x)	19.7	17.8	11.5	10.4
Debt/Equity (x)	0.28	0.57	0.52	0.52
ROCE (%)	13	11	15	15
Price/Book Value (x)	3.5	2.8	2.6	2.5
P/E (x) TTM	7.2	12.3	27.0	15.8

Shareholding Pattern as on 30th Sept, 2021		
Parameters	**No of Shares**	**%**
Promoters	45,904,888	62.4
Institutions	6,535,960	8.9
Public	21,088,662	28.7
TOTAL	73,529,510	100.00

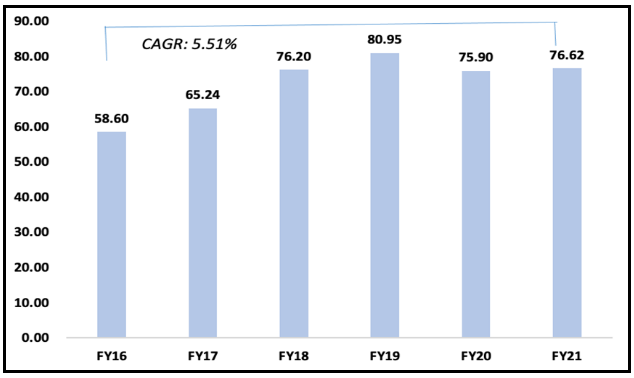
Source: Annual Report

Note: All the data is calculated as per Market Price on 13th Oct, 2021

Industry Overview (contd.)

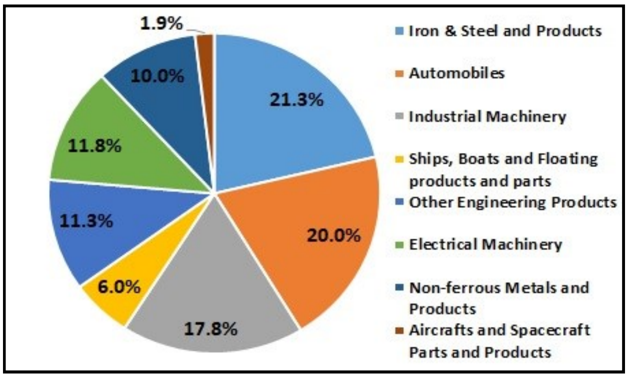
In crisis, there are often opportunities that can have a multiplier effect. The infrastructure sector has a multiplier effect on several other sectors. Construction activities were the first ones to open up with gradual re-openings. While the economy is recovering, the havoc created by the pandemic on infra sector was on a large scale. India will have to invest heavily in order to recover. The optimism on Infra sector is backed by expectations of strong recovery in the capital goods cycle, India's revival, and the post-Covid recovery of corporate India, which is dependent on new demand. The government has tried to stoke such demand with PLI schemes. Indian companies are bagging contract manufacturing deals from global behemoths. All in all, the demand for new infrastructure and expected growth in contracts for engineering sector is expected to keep the sector in flavour in the near term. Government's thrust on increasing spend on the overall development of infrastructure to boost the economy is a great positive step towards encouraging private investment, which would further fuel the growth of the economy. Between FY16-21, engineering exports from India expanded at a CAGR of 5.51%. US is at the top of India's export destination for engineering goods. Export of engineering goods is expected to reach USD200bn by 2030.

Exhibit 02: India's engineering exports (USDbn)



Source: IBEF, Progressive Research

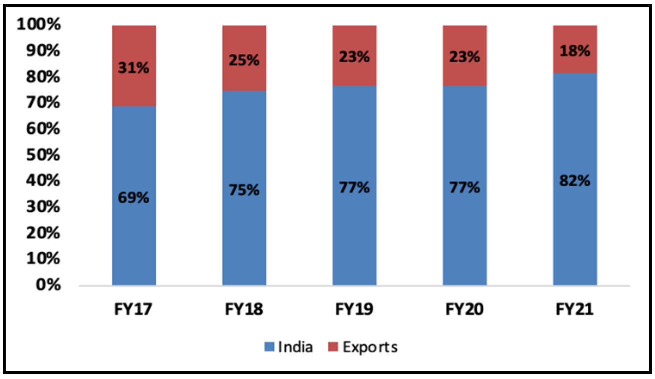
Exhibit 03: Engineering Export Performance



Source: IBEF, Progressive Research

About the Company: ISGEC Heavy Engineering Limited (ISGEC) is a diversified heavy engineering company engaged in manufacturing and project businesses with an extensive global presence. The company provides state-of-the-art, sustainable engineering solutions to customers across the globe. It manufactures process plant equipment, presses, iron & steel castings and boiler pressure parts. It also undertakes turnkey projects for setting up boilers, power plants, sugar plants, distilleries, factories, industrial water treatment facilities and bulk material handling facilities. The company addresses the requirements of a wide spectrum of industries namely power, fertilizer, sugar, oil & gas, petrochemicals, automobile components, steel, cement, chemicals, railways, space and ports. ISGEC has a number of joint ventures (JV) as well as strategic technology partnerships with leading global firms. It ranks 220 in the Fortune India (2020) 500 listing and 236 in the ET 500 (2019) listing. Mr. Aditya Puri is the Managing Director and Mr. Ranjit Puri is the Chairman of the company. The manufacturing facilities are in Haryana and UP. The overseas facilities are at Eagle Press & Equipment Co. Ltd. Windsor, Canada Presses and Cavite Biofuel Producers Inc. (cBPI), Philippines.

Exhibit 04: Import vs Exports (ISGEC)



Source: ISGEC Company Presentation Progressive Research

Investment Rationale:

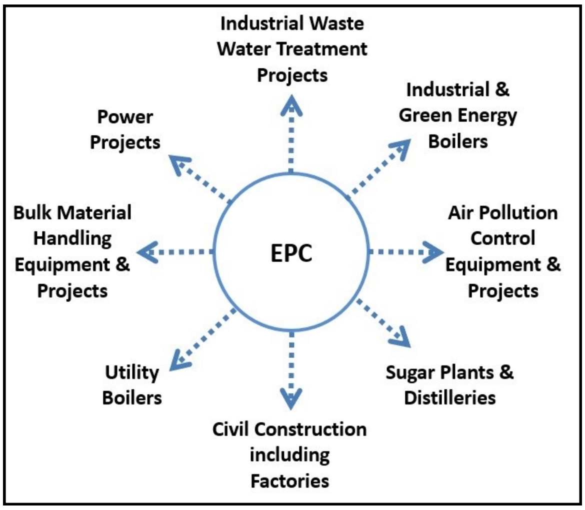
(A) Diversified Engineering Player: Unlike many engineering players that are heavily dependent on a single industry; ISGEC has an extremely diversified revenue stream like sugar machineries, power machineries and others. It is this diversified revenue stream coming from sales to more than 70 countries that has helped the company to consistently grow from Rs3bn revenue in 2001 to Rs30bn revenues in 2013 and now at Rs54.25bn. The company has established its position as a leading EPC player and manufacturer for capital goods. The strong market positioning in the capital goods segment, contributes to the major chunk of its revenues and profits. Apart from in-house capabilities; ISGEC has several technology JVs and strategic technology partnerships with international majors. These, along with its long track record in the industry and its ability to absorb and indigenise technology, bolsters its market position. In FY21, 60% of ISGEC's gross revenues was derived from the EPC business, 27% from manufacturing with balance from its sugar operations. With captive manufacturing and fabrication facilities across key product segments likes presses, boilers, process equipment, the company enjoys the benefits of synergies with its EPC segment, which is characterised by sound designing and execution capabilities.

Investment Rationale (contd.)

(B) Business Segments: The business of the company is broadly categorized into (i) Engineering, Procurement and Construction (EPC) and (ii) Manufacturing

The EPC Segment covers setting up of projects for boilers, air pollution control equipments' including Flue Gas Desulfurization (FGD) systems, sugar plants & machinery, distilleries for ethanol, power plants, construction of factories, material handling systems, industrial wastewater treatment & recycling and civil infrastructure. The company has also ventured into a new field of providing remotely managed e-services for plant operation, maintenance, troubleshooting and commissioning. ISGEC has experience in executing power plants with various fuels such as petcoke, coal, oil & gas, waste heat recovery, MSW based fuels etc. It has to its name 60 varied power plant projects and experience of contracting over 1,600MW of power plants on EPC basis. It has proven expertise in setting up captive power plants on an EPC basis. Customers in energy intensive industries are dependent on low cost, reliable power to remain competitive. The capability in offering captive power plants with the least lifecycle cost has made ISGEC the preferred EPC partner for the industry.

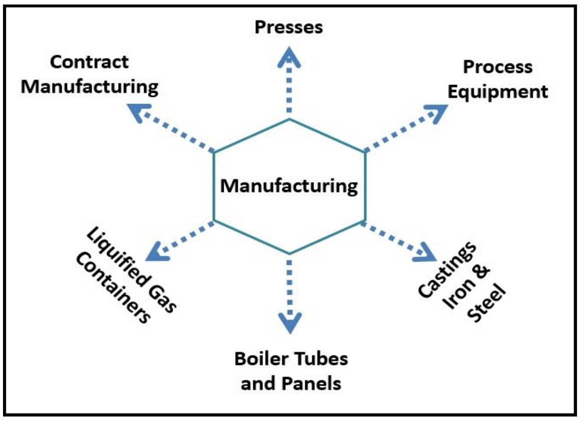
Exhibit 05: EPC Business Bifurcation



Source: ISGEC PPT

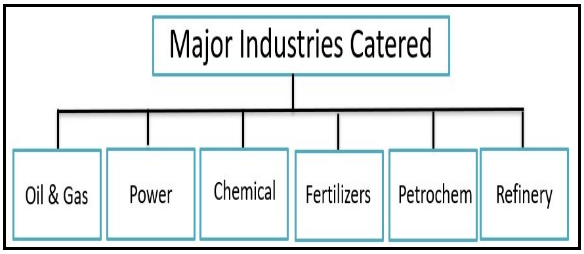
Manufacturing, Machinery and Equipment covers the manufacture of presses, process equipment, liquefied gas containers, tubing & piping, Iron & steel castings and Industrial machinery. In FY21 after the initial setback due to Covid-19, the company bagged good orders from power, refinery, hydro and steam power, steel, cement, aeronautics, refractory, soda ash and tool & dye sectors. The demand from the Automotive sector, the major users for mechanical presses remained depressed and adversely affected the order booking. On the other hand, focus on Hydraulic presses enabled ISGEC book orders for Hydraulic presses from the non-automotive sectors. This mitigated the loss of orders from the Automotive sector to some extent. There was loss of important orders from Europe and North America due to restricted travels which were necessary for generating enquiries and for post-offer discussions. In the **Process Equipment Division,** the company manufactures high-pressure shell and tube heat exchangers, pressure vessels, reactor and site fabricated columns. It manufactures a wide range of equipment ranging from 20MT to 350MT with equal ease. In this segment, majority of the projects in the oil refinery and petrochemicals sectors were either shelved or deferred, adversely affecting order booking. However, a good backlog of orders from the previous year saved the segment. The situation has improved and recently the company has booked three high value orders for Shell & Tube Heat Exchangers. Going forward, the company expects the market for Process Equipment likely to remain buoyant during the year. In the liquefied gas containers business there has been a lockdown led slowdown in the last few months. The sharp dip in demand for Caustic Soda from the Alumina and Textile industries, due to the extended lockdown, has directly affected the order booking. The **Tubing and Piping shops** have received a Certification for EN Code (European Code) for Boilers, as well as an approval to manufacture Pressure Parts as per ISO-12952 and ISO-3834. Also, the special capability for Inconel Weld Overlay process developed by ISGEC has enabled it to bid for prestigious orders for Waste-to-Energy Boiler fabrication from the developed world. The current year has started with a record order book requiring it to make some small investments to marginally increase the manufacturing capacity. Majority of OEMs in the Tool & Dye sector have started their Tool Room (manufacturing facility) in India. In view of high demand envisaged for Castings from this sector, ***ISGEC is expanding its foundry facility, which will increase the output by 50%. The new facility is expected to be operational from January 2022.*** The working of **Steel Castings Business** has shown improvement but the company is working towards increasing its efficiency even further. The market for Steel castings has improved after taking a major hit with the lockdown and the unit has booked good orders. The foundry was also impacted to a great extent due to non-availability of oxygen, but the situation has, however, improved with oxygen availability getting back on track.

Exhibit 06: Manufacturing Business Bifurcation



Source: ISGEC PPT, Progressive Research

Exhibit 07: Industries Catered



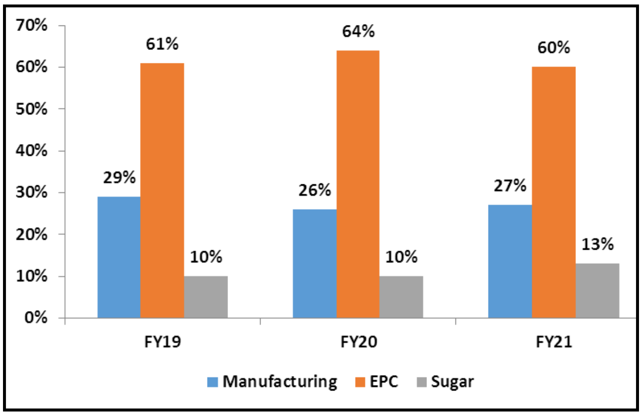
Source: ISGEC PPT, Progressive Research

Investment Rationale (contd.)

Exhibit 08: Business Bifurcation

Source: ISGEC Website

Exhibit 09: Segmental Revenue Contribution



Source: ISGEC PPT, Progressive Research

Exhibit 10: Product Range

Division	Product Range
Pressure Vessels and Heat Exchangers	Sheet and Tube heat Exchangers, Reactors, Pressure Vessels, Containers for liquefiable gases such as chlorine, ammonia, and boiler drums, pressure parts and components
Presses	Mechanical and hydraulic presses
Boilers	Boilers burning biomass, coal, oil & gas, and other fuels. CFBCs, AFBCs for steam generation, cogeneration and power plants
Sugar and Other Machinery	Sugar plants on turnkey basis, cane crushing mills, vacuum parts, evaporators, juice heaters, crystallizers
Castings	Ferrous and Alloy Steel castings up to 40MT single piece
EPC/ Turnkey services	Power plants, BTG packages, sugar plants along with Co-gen and Industrial captive/standalone power plants

Source: ISGEC PPT, Progressive Research

Exhibit 11: Technology Partners

Technology Partners	Applications
Amec Foster Wheeler, USA	Feedwater heaters and surface condensers (now with Wood Group, UK)
AP&T, Sweden	Press hardening lines used for forming of high strength steel
Babcock Power Environmental Inc., USA	SOx reduction process by use of Wet Flue Gas Desulfurization (FGD)
BHI FW Corporation, South Korea	Pulverized coal fired sub-critical boilers and supercritical boiler(60 to 1000Mwe)
Bosch Projects, South Africa	Chainless cane diffusers and other sugar machinery equipment
CB&I Technology Inc., USA	Helix heat exchangers
Envirotherm GmbH, Germany	Electrostatic Precipitators (ESP) up to 1000Mwe
Fuel Tech Inc., USA	Reduction of particulate matter emissions by use of electrostatic precipitators performance improvement technologies (especially Flue Gas Conditioning). NOx reduction processes by use of Urea or Ammonia (SNCR)
Siemens Heat Transfer Technology	Heat recovery steam generators
Sumitomo SHI FW Energia Oy, Finland	Circulating Fluidized Bed Combustion (CFBC) boilers upto 99.9Mwe Oil & Gas, shop assembled water tube packaged boilers up to 260 tonnes per hour
Thermal Engineering International (TEi), USA	Screw plug (breech lock) heat exchangers. Waste heat recovery through process waste heat boilers Sulphur condensers Solar thermal heat exchangers
BHI FW Corporation USA	Combustion modification of tangentially fired boilers

Source: ISGEC PPT, Progressive Research

Investment Rationale (contd.)

(C) Market position aided by technical tie-ups/alliances: Apart from in-house capabilities, ISGEC has a number of technology JVs and strategic technology partnerships with global EPC players such as Hitachi Zosen Corp, Amec Foster Wheeler North America Corp., Envirotherm Germany, Babcock Power Environmental Inc, USA etc., which enables it to command leadership position in the market across many product categories such as boilers, presses, process equipment etc. ISGEC's long track record in the industry, technical tie-ups with international majors and ability to absorb and indigenise technology results in strong brand recall for its products.

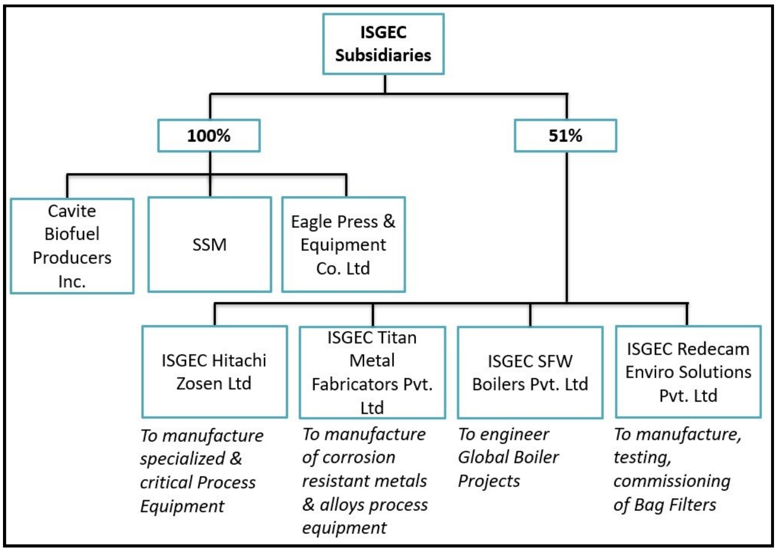
(D) Subsidiaries Snapshot:

(i) Saraswati Sugar Mills Ltd: Saraswati Sugar Mills is the wholly owned subsidiary of ISGEC. The mill has cane crushing capacity of ~10000TCD, and has been clocking the highest sugar recovery in Punjab and Haryana for the past 10 years. The company had started work on setting up an Ethanol Plant of 100KLPD in the last season. 90% of the work has been completed. It was expected to start commercial production by June 2021 but was delayed due to the resurgence of Covid-19. With the start of the Ethanol plant, there will be increased requirement of working capital and the company shall be taking necessary steps to enhance the cash credit limits.

(ii) Eagle Press & Equipment Co. Ltd (100% subsidiary): In 2018, the company acquired 100% stake in Eagle Press & Equipment Co. Ltd., a press manufacturing company in Canada. With the opening of the economy in US, it has been able to book a large number of orders and FY22E is likely to be good.

(iii) ISGEC SFW Boilers Pvt. Ltd: ISGEC (51% holding) has a JV with Amec Foster Wheeler (now Sumitomo SHI FW Energia, Oy) for engineering their global boiler projects (Fossil Fuel Boilers).

Exhibit 12: Subsidiaries



Source: ISGEC PPT, Progressive Research

(iv) Cavite Biofuel Producers Inc. (CBPI- Step down subsidiary of ISGEC Investments Pvt. Ltd.): In October 2019, the company through its wholly owned subsidiary company, namely ISGEC Investment Pte. Ltd., Singapore acquired the business of Cavite Biofuels Producers Inc., Philippines with all its assets and liabilities and group companies. The Bioethanol plant under construction in Philippines consists of the acquired business of Cavite Biofuels Producers Inc. The company is on track to restart construction of the plant. The company continues to think that it is a good business and will be profitable to run, though it will keep the option to sell it when it is complete. ISGEC is looking at a capex of about Rs1.7-1.8bn including pre-operating and all those several expansions for which it is looking to take a loan which has been approved by one of the banks. This is just to give a guarantee for that loan, but it will be through the debt route. For the current status, there are buyer enquiries with potential customer being in deep state of due diligence. It would continue with its construction until a lucrative deal is struck.

(v) ISGEC Hitachi Zosen Ltd: ISGEC (51% holding) has a joint venture with Hitachi Zosen Corporation (49% holding) Japan to design & manufacture licensed and critical equipment at Dahej (Coastal Area of Gujarat), India having the jetty for Ocean transportation. It has been set up to cater to the specialized & critical process equipment requirements of refineries, fertilizer & petrochemical industries, across the world. Hitachi Zosen is a 131-year-old company, based out of Osaka, Japan with interests in Process Equipment, Environmental Systems, Industrial Plants, Industrial Machinery, Precision Machinery, Steel Structure, Construction Machinery, and Disaster Prevention Systems. The JV was for expanding the capacity of this plant from 8,000TPA per year to 13,000TPA. It brings together state-of-the-art technical & engineering skills of Hitachi Zosen and the manufacturing expertise of ISGEC. It will take over ISGEC's existing manufacturing facilities at the port town of Dahej (Gujarat), giving it easy access to the global market. The company continued with the business of undertaking on-site repairs of equipment in Fertilizer and Petrochemical plants even during their shutdowns.

(vi) JV with Titan Metal Fabricators, USA: to design & manufacture corrosion-resistant process equipment using reactive metals and high nickel alloys at Yamunanagar, India. The vision is to be a global leader in the manufacture & supply of custom-built process equipment having reactive metal. The major business potential for the company is from chemical plants, mainly among them being agrochemicals, pharmaceuticals, commodities like common salt etc. These plants did not suffer major slowdown post lockdown period and, therefore, the impact on order booking was minimal in FY21. The orders under execution, however, were affected due to delay in the raw material supply. Barring the uncertainties posed by Covid-19, the company is likely to do well to record order backlog and major projects in soda ash / chlorine derivatives/acid plant sectors.

(vii) ISGEC Redecam Enviro Solutions Pvt. Ltd (51% holding): ISGEC has a JV with Redecam, Italy for manufacture, testing, commissioning of bag filters.

(E) Strongly Positioned With Marquee Clients: The company is positioned No.1 / No. 2 in most business lines related to Hydraulic & Mechanical Presses , Sugar Plants, CFB Boilers, Traveling Grate Boilers, Liquefiable Gas Containers, Process Equipment, Slop Fired Boilers, Oil & Gas Boilers, Bubbling Bed Boilers, Made to order large steel castings for EPC Projects etc.

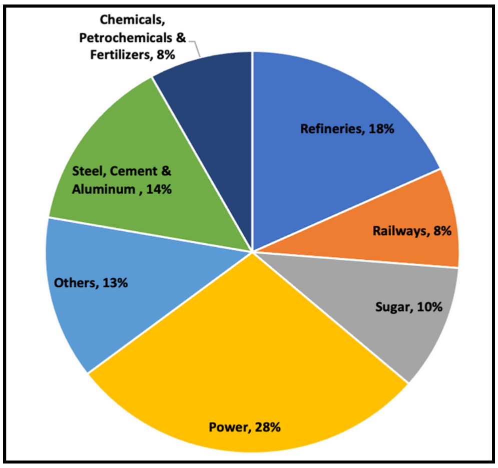
Exhibit 13: Marquee Clientele

Source: Company PPT

(F) Order Book: The consolidated order book for Q1FY22 stood at Rs23.66bn which is nearly 4.5x as compared to Q1FY21. The overall order book position stands satisfactorily at Rs79.24bn. The consolidated order book is about 83% for the project business and 17% for the product business. The government share of order book has gradually increased from 40%, 47%, to currently being 55%. The order book includes Rs8,270mn of export orders which is just over 10%. The order booking for ISGEC Hitachi Zosen was also good. It has Rs4,890mn worth of orders as on April 30, 2021. As per the latest conference call, order fructification during Q1FY22 has been good with orders being booked for almost all the products except for presses. Overall, the demand trends are encouraging as enquiry position is good. About 50% of the order book is from PSU customers which has price variation clause and the price increases for some of the material can be passed onto the customers. For the rest of the order book the company has fixed price contracts from customers but keep contingency margins on cost. These have not proved enough given the extent of the commodity price increases. In view of this, it is trying to keep higher contingency margins on cost for new orders, but the market is very competitive. In most line of business, the enquiry level is good and sustained and therefore the management does not expect paucity of orders. In Q1FY22, lot of tendering of orders has happened which made it an exceptionally good quarter, but the company does not expect this order booking of Rs24,000mn to continue every quarter, but it will be very comfortably placed as far as the order booking is concerned. The company expects Rs15,000-20,000mn of order inflow every quarter.

Recent Orders (as on Q1FY22): Sulphur recovery unit with civil works from a major public sector refinery company; 175KLPD Multi-Feed Distillery from a large sugar company; Major order for a PTA Reactor for a public sector petrochemical project; Significant order for Soda ash project from Russia; Prestigious order for the supply of 4 nos. Reactors of vanadium modified low alloy steel, for a renewable energy project in USA; Bauxite handling plant for 5MTPA Alumina refinery project expansion at Orissa; Heat exchanger order for a prestigious refinery project in Rajasthan; Order for travelling grate boiler from Africa; 3x150 TPH CFBC Boilers for a Pharma company.

Exhibit 14: Order Book Bifurcation



Source: ISGEC PPT, Progressive Research

G) Key Business Developments:

Focus on Contract Manufacturing: The efforts to make in-roads into the defence sector continue and the company has got approved by the Goa Shipyard Ltd. for a major equipment required by the Indian Navy i.e. Ship Damage Control Simulator where only two companies have qualified in India, and ISGEC is one of them. In FY21, the company made headway with one of the major multinational defence equipment manufacturers and have received an enquiry from them pertaining to a naval equipment. More enquiries are expected pertaining to artillery from the same manufacturer.

Energy Sector Disruptions Front: Significant ones being, reduction in crude import bill, increased dependence on domestically produced Methanol for various downstream chemicals, and focus on net zero mission of the developed world. Considering these trends, ISGEC identified futuristic areas related to renewables, green energy and petrochemicals & chemicals for diversification, and shortlisted some new products for discussions with technology licensors.

Quality Leadership: ISGEC has been known for its quality, timely delivery and post installation service. It enjoys number uno position as turnkey project provider to sugar plants. On the power boilers side, it has a very strong experience of producing more than 500 boilers around the globe. In the past, ISGEC could only produce boilers in the range of 10TPH to 250TPH, however, it now has the capability to produce anything up to 1,000TPH.

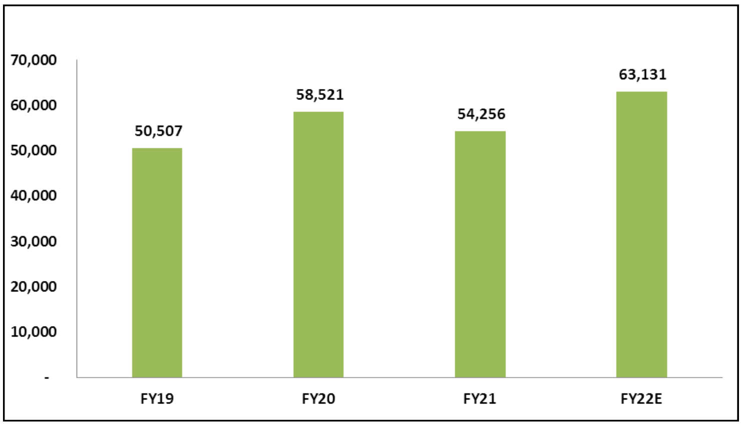
Financials:

Financial Snapshot: There has been a gradual increase seen in the revenues of the company. The company has indicated the target of revenues of Rs10,000cr over the next 3 years. With regard to the Ebitda margins, there has been gradual improvement after the sluggish reporting in FY19/20. These are expected to be on the higher end with improvement in the segmental contribution. On the EBIT, as indicated by the management, there have been extra costs in Q1FY22 which impacted the margins, but it maintains its guidance of 8% on EPC and 13-14% on products going forward.

Debottlenecking: The company is undertaking debottlenecking in the manufacturing segment. In the foundry area with some marginal investment the capacity would be increased by nearly 50%. There are attempts on the pressure parts as well to increase capacities. ISGEC is also approved by DRDO for oxygen plants and has got its first order. The overall investment is not very significant, but this is to increase capacity because the order booking is good. With the debottlenecking at Yamuna Nagar, the company is expecting that the manufacturing output will go up by about 10% which is about Rs1-1.1bn.

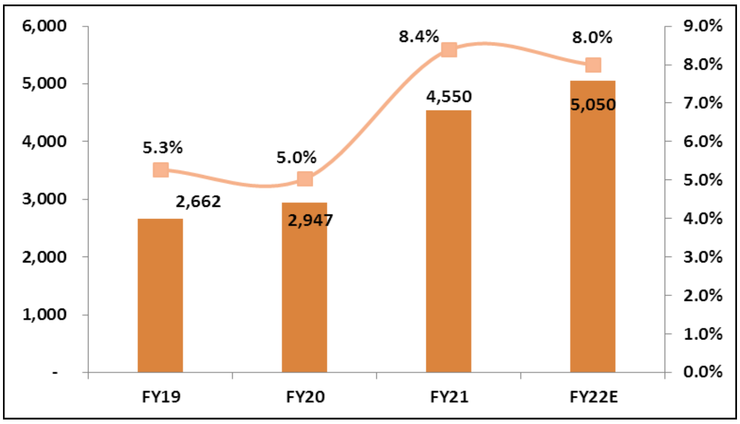
Raw Material Pricing: Apart from Covid-19, margins continue to be affected due to steep increase in commodity (steel, copper, aluminium, and nickel) prices. About 45% of orders in hand (PSU customers) have a steel price variation clause and the price increase can be passed onto these customers. For the rest of the orders, contingency margin kept on cost may not be enough to cover the increase. Steps are being taken to analyze and minimize the effect.

Exhibit 15: Sales Trend (Rs mn)



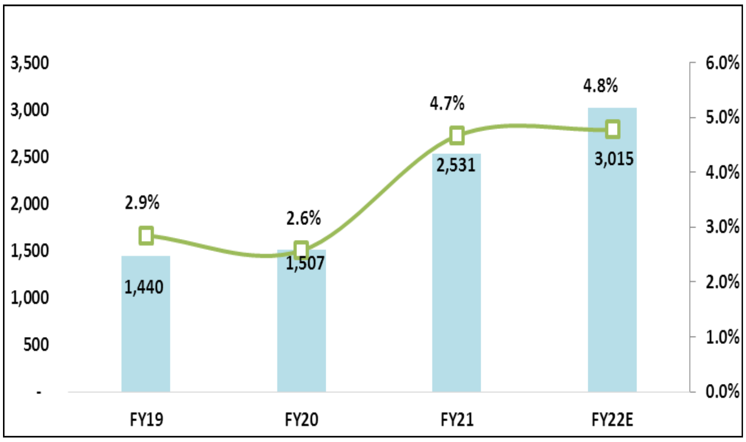
Source: Annual Reports, Progressive Research

Exhibit 16: Ebitda (Rs mn) v/s Ebitda Margins



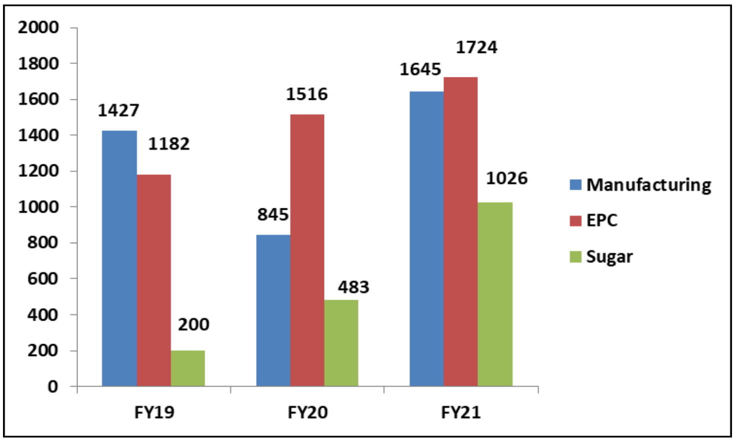
Source: Annual Reports, Progressive Research

Exhibit 17: PAT (Rs mn) v/s PAT Margins



Source: Annual Reports, Progressive Research

Exhibit 18: Segmental EBIT (Rsmn)



Source: Annual Reports, Progressive Research

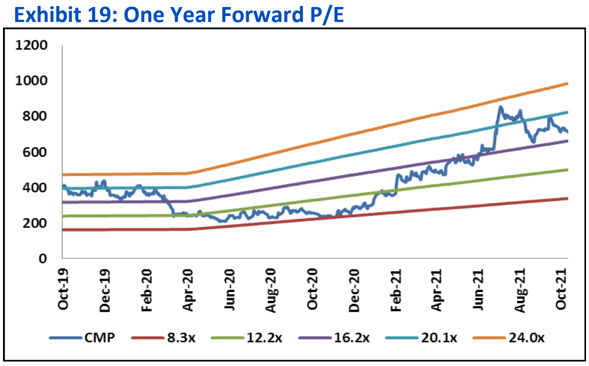
Risks and Concerns:

- The company is exposed to commodity risks for certain commodities such as steel for fabricated items and structures and construction materials such as cement, TOR steel and structural steel for civil work
- Slowdown in economy or taking more longer to revive to normalcy
- Hindrances from the partnerships and subsidiaries
- Increasing competition from domestic as well as international players
- The company is exposed to execution risks, including delay in client-related approvals and site availability, a common feature in the EPC space

Outlook and Recommendation:

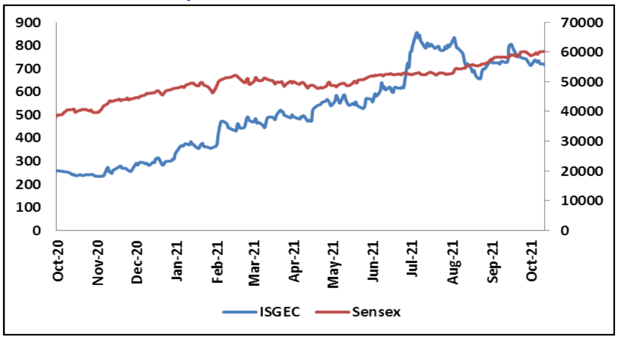
ISGEC is an engineering entity with leadership across its business verticals and derived close to 60% of its Rs58bn revenues from EPC segment. Manufacturing accounts for 25% of its revenues and the balance 10% comes from the Sugar segment through Saraswati Sugar Mills. It is a significant player in FGD a pollution control system used in Power Plants. The orderbook as of June 2021 stood at ~Rs79bn, providing the much required growth visibility with a promising order pipeline as well. Public spending on infrastructure, emission norms, private sector capex, and railway projects are major growth drivers. ISGEC has wide global footprint across more than 90 countries with exports accounting for almost 23% of its revenues. ISGEC caters practically to every industry and its product offerings encompass a wide spectrum of industries by virtue of its strong operational capabilities with Global Quality Standards. Overall, we feel with the gradual come back in the economy post the pandemic, should ramp up the orders and executions going ahead. The company is an old name in engineering with reputation for quality, timely execution and customer support and this would give an edge in capitalizing on the opportunities. Presence across multiple sectors spreading the market risk, concentration risk dealt through the geographical diversification, well placed to survive down cycles, enjoying leadership in most businesses, continued focus on niche technologies and constant foray into futuristic business lines are some of the investment rationales to bet on. **We initiate a Buy on the stock for a target of Rs832 over a 12 months horizon.**

Exhibit 19: One Year Forward P/E



Source: Ace Equity, Progressive Research

Exhibit 20: Price v/s Sensex



Source: Ace Equity, Progressive Research

DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE) for its stock broking services and is Depository Participant with Central Depository Services Limited (CDSL) and is a member of Association of Mutual Funds of India (AMFI) for distribution of financial products.

PSBPL is SEBI registered Research Analyst under SEBI (Research Analysts) Regulations, 2014 with SEBI Registration No. INH000000859. PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company (s) covered in this report-:

· PSBPL or its associates financial interest in the subject company: NO

· Research Analyst (s) or his/her relative's financial interest in the subject company: NO

· PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.

· PSBPL or its associates actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO

· Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: NO

· PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.

· The research Analyst has served as officer, director or employee of the subject company: NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses (if any) may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read “Risk Disclosure Document for Capital Market and Derivatives Segments” as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Terms & Conditions:

This report has been prepared by PSBPL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of PSBPL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and its at the discretion of the clients to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. PSBPL will not treat recipients as customers by virtue of their receiving this report.

Registered Office Address:
Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053;
www.progressiveshares.com
Contact No.:022-40777500.

Compliance Officer:
Mr. Shyam Agrawal,
Email Id: compliance@progressiveshares.com,
Contact No.:022-40777500.