

Isgec Heavy Engineering Limited 87th Annual General Meeting Transcript

Dated 18th September 2020.

Mr. Ranjit Puri, Chairman

Welcome to the 87th AGM Meeting of Isgec Heavy Engineering Limited. Most years I have interacted with you face to face, it's been a great pleasure to see you face to face and to talk to you formally and informally. This year unfortunately because of COVID that is not possible, so we have made arrangements for this virtual meeting under the advice of Securities Exchange Board of India SEBI and the Ministry of Corporate affairs. We have taken all efforts to try and make it convenient for you to join this meeting. It has been facilitated by NSDL (National Securities Depositories limited. I hope you have not had great problems logging in and you can see and hear everything that is going on.

Ladies and gentlemen the quorum is present, I am advised so I am going ahead and starting the meeting. The notice and the annual report have been sent through email to all shareholders whose addresses were registered with the share transfer agent of the company. I am sure you all have received them.

A couple of kind of ground rules, resolutions do not need to be proposed or seconded under the new protocol. Also, there is e-voting is available from 15th until yesterday. Many of you may have voted then. In case you have not voted, there will be a 15 min window at the end of this meeting, and you can cast your vote. In case you have already voted, don't vote twice. The results of the meeting will be declared by the Registrar on the website within 48 hours from the close of the meeting.

I am going to introduce the directors on the Board and some other important people. I request all the directors and other persons to raise your hand so that people

Mr. Vinod Nagpal – Non-Executive Independent Director, Chairman of Audit Committee and Nomination and Remuneration Committee

Mr. Sidharth Prasad – Non-Executive Independent Director

Mr. Vinod Sachdeva - Non-Executive Independent Director

Mrs. Shivani Hazari - Non-Executive Independent Director

Mr. Vishal Marwaha - Non-Executive Independent Director

Mr. Tahir Hasan - Non-Executive Independent Director

Mr. Aditya Puri – Managing Director

Mrs. Nina Puri – Whole-Time Director

Mr. S.K. Khorana – Executive Director and Company Secretary

Mr. Kishore Chatnani – Head of Corporate Account, Treasurer and Chief Financial Officer

Mr. Abhinav Khosla – Statutory Auditor

Mr. Rajinder Kumar Bhalla – Scrutinizer

Mr. Mohandas G – Cost Auditor

Gentlemen we have 4 Directors who are retiring at this meeting. They have been valuable and conscientious as individuals in contributing a lot to the board and always watching out for company's best interest. But more important, their contributions have been such that the board has been more than the sum of its parts. Mr. Tahir Hasan who is a mechanical engineer by profession, has a lot of varied industrial experience. Particularly valuable for us in the experience in the Sugar Industry and hands on running of our sugar mills. Mr Arun Kathpalia, who is not with us today, unfortunately. His legal acumen has been of value to us, particularly as we are entering international things which are more and more complicated. Be it taking over overseas company, disputes and potential disputes involving potential litigations outside India, technology transfer, JV agreements with the overseas companies, for all this he has been very useful. Mr. Vinod Nagpal, the Chartered Accountant, apart from his other contributions he has chaired the audit committee and made sure we do not stray from the straight and narrow path of rectitude. And finally, Mr. VK Sachdeva, who has worked with the company all his working career. Headed two major manufacturing units of Isgec plant and the subsidiary Sugar mill at Yamunanagar. Has saved us very often from making mistakes that we would have otherwise made. I am sure the shareholders would wish to join me in expressing their gratitude for the valuable contribution that we have received from them. Very sadly they are not eligible for re-election under the new law and we officially have to say goodbye to them.

Before I ask Mr. Aditya Puri, Managing Director to brief you about the working of the company, may I wish all of you and your families good health in this difficult time. Thank you.

Mr. Aditya Puri, Managing Director

Good morning ladies and gentlemen. The fiscal 2019-20 posed a challenging operating environment for the Indian economy, marked by liquidity constraints, muted investments, weak consumption and volatile commodity prices. Various macro-economic indicators as well as overall GDP growth witnessed consistent deceleration. These challenges were further exacerbated by outbreak of novel coronavirus (COVID-19) pandemic towards the end of the fiscal year. As I speak, the infection rate continues to rise in several parts of the country, but we are learning to live and work in the changed circumstances. Despite such a challenging year we were able to deliver strong results.

I must salute the spirit of the government authorities, healthcare workers, police, and the public, in fighting the pandemic. I must also acknowledge the understanding and support of our numerous customers; on whose trust we continue to evolve and grow.

As a responsible corporate entity, ISGEC selflessly undertook a series of measures to ensure safety and well-being of our employees, partners and to support vendors, customers, and communities across India. We leveraged our robust information technology infrastructure to ensure seamless transition to work-from-home environment with little or no disruption of operations. I'm pleased to state that currently all our factories, offices and sites are operating, majority of our suppliers and vendors are back on their feet and we are receiving good order

booking and enquires. During this period, we also focussed on conserving and augmenting our liquidity position through judicious cost management and deferring non-critical spends.

Business Highlights

This year, we steadfastly focussed on solidifying our business fundamentals, firing up innovation and catering to the evolving customer needs and preferences.

Fiscal 2019-20 concluded with a healthy underlying performance across segments withstanding significant external headwinds. We ended the year with a strong order book in hand worth Rs. 6,916 crores, from which about Rs.5,411 crores are for the project business and Rs.1,505 crores are for the product business. Consolidated order book includes Rs.1,500 crores of export orders, which is about 22% of our order booking. Order booking for ISGEC Hitachi Zosen was also good. We are continuously working on diversifying into new products. Business development centre is being created to work on new products without making much investment. Focus is on contract manufacturing for defence, space and other sectors, the company is also exploring large civil work projects and will be bidding for construction of small airports.

During the year we recorded a 16% growth in revenue to Rs. 5,852 crores from Rs. 5,050 crores in the previous year, partly tampered by COVID 19 pandemic impact. Our profitability put up a strong footing with profit after tax standing at Rs. 150 crores as against Rs. 144 crores in the previous year, a growth of 5%. EPC business saw good traction in new categories and orders.

Company has been delivering improved performance year-on-year, demonstrating the soundness of our robust business model. We also delivered good operational performance during the year. Balance sheet remains robust with strong net cash position and credit rating of AA (Stable) and A1+ by ICRA. Our strategic interventions to optimise working capital will further reinforce our financial position.

A key intervention, amongst others, is the activities that we undertake as a socially responsible corporate. We are committed to create a positive impact in the communities where we live and operate, thereby empowering the marginalised members of our society.

Due to COVID-19 pandemic the economic activities in the country and abroad have been disrupted. It will take some time for these to pick-up at full pace, but it will not impact our company in the long term, as most of our customers have long-term investment timeframes and the interruption of three months does not change their investment plan and also most customers have separate funding arrangements for capital equipment and do not have to use their operational cash flows. We will continue to monitor the situation very closely in the next few months.

With new government reforms and initiatives like Atmanirbhar Bharat Abhiyaan and making India the 'country of choice', to support the Indian economy, this will increase the investments over a period of time.

We are very optimistic about our positioning in the market and with presence in multiple segments and geographies, robust balance sheet, state of the art infrastructure and manufacturing capabilities, technology partnerships and the right quality of people, we will

continue to focus on increasing our shareholder wealth, strengthen financial metrics and to serve the community and people at large.

I thank you once again for your continued faith in ISGEC and its management.

I wish you and your family members all the best!

Thank you!

Questions

Mr Chatnani, Chief Financial Officer

We now have shareholders who have registered for speaking. May I request Mr. Rajat Setiya to speak.

Mr. Rajat Setiya, Shareholder

Hi, thank you so much for the opportunity. One question is about the delays in the projects because of COVID. So, wanted to understand is there any liability that may arise because of the same. Second, there are some cancellations in our orders as mentioned by the board. What happens to the customers' advances when the customer cancels that order? Third, about the arbitration settlement that happened with the Philippines client and we ended up taking up the business. What is the estimated loss that we expect from that transaction overall, right from the time took up the client, we started delivering them services, there must be some cost involved in that, we spend some money in litigation and now we ended up taking some loans as well as some assets. Basis today's estimates for the sale of that asset what is the loss or profit overall that we are looking at on that transaction. Fourth, on our EBITDA margin guidance for 7-8%, which has not been achieved in the EPC segment. We understand the circumstances, but how do you see this year panning out in terms of margin of EPC segment. That's about it. Thank you

Mr. Aditya Puri, Managing Director

We will take all the questions together at the end.

Mr. Kishore Chatnani, Chief Financial Officer

We have Mr Pankaj Malik, shareholder who would like to speak. I request Mr. Pankaj Malik to go ahead.

Mr. Pankaj Malik, Shareholder

With the permission of Chairman Sir, I would like to speak in Hindi, I hope I have his permission. It was pleasant to read the FY 2019-2020 Annual Report. Specifically, on Page 5, in 1933 the company was established as Saraswati Sugar Syndicate Limited and the professional journey it has completed and with that the Social Responsibility has also come a long way. In 1946, when Isgec was established, closely India got independence in 1947. Then, the major hurdle the country was facing then was the displaced population and to take care of their fundamental needs like food, clothing, shelter and employment. Isgec contributed to this in a big way and helped the displaced people with employment. Provided them to start with small work, extended their full support. For the local farmers, they encouraged them to cultivate sugarcane and supported them with technical know-how. This

brought improvement and prosperity to us in which Isgec and Saraswati Sugar Mill played a huge role.

During the 1950s for women empowerment and in order to make them self-sufficient and self-reliant an organisation named “Women League” was set up. This was started and run for a long time by Smt. Kamla Puri ji, grandmother of MD Aditya Puri. Since 1950s till date, continuous efforts are being taken by this organisation, where women are trained in technical field. It was started with stitching but now it includes computer courses and fashion designing as well. Today it is the leading organisation in our district. Girls from distant regions come to be a part of this. Women were also provided with employment and were trained to start their own small business and provide support to others for employment. The seed that was sown in 1950s, has grown into a huge fruitful tree. People very proudly associate themselves to the woman league organisation. The efficient leadership and effort of Dr Nina Puri to bring it to this stage is to be apprehended.

The Joint Venture initiatives by Isgec with leading companies around the world like Hitachi Zosen (Japan), Titan Metal (USA), Sumitomo (Finland) and Redecam (Italy) to name a few. The technical collaboration between these companies will pave way for growth and progress of Isgec in the times to come.

I believe, under the vision of Chairman sir, MD and the board of directors, Isgec will strive to be grow even more. Thank you

Mr. Kishore Chatnani, Chief Financial Officer

The next shareholder who wants to speak is Mr. Sushil Kumar Vohra

Mr. Sushil Kumar Vohra, Shareholder

Thank you Mr. Chatnani. Good morning everybody, I am Sushil Vohra, an engineer by profession. Did my engineering from Punjab Engineering College, Chandigarh in 1965 and joined Isgec the same year and served for thirty-six and half years. Retired in 2001 on superannuation. I am also a chartered engineer and being a chartered engineer I have been empanelled by a few banks. I am also a certifying agency. I have been living in Yamunanagar since 1965. I have seen Isgec grow to Rs 6,000 diversified company. The growth of Isgec has been made possible by the hard work of the promoters over the years. This growth has helped raise the standard of living of people in Yamunanagar in many ways. Company laid lot of emphasis on ancillary and vendor development.

Over the years, many ancillary and vendors have come up in Yamunanagar, making it an engineering hub. I was rather a part of this initiative between 1980 and 1996, when I handled materials department. Company has been taking keen interest in employing residents of nearby areas and thus slicked up local talents.

Isgec conducts training programs for welders, mechanics and other engineering professionals. Company also recruits from local and surrounding institutes for training, apprenticeship and employment.

The company led by Promoters is known by its down to earth attitude, while devote themselves 24*7 towards the growth of the company and its stakeholders. Thank you very much

Some of the sentences are missed, please redraft again

Mr. Kishore Chatnani, Chief Financial Officer

Thank you, Mr. Vohra. The next speaker shareholder is Mr. Sohan Lal who wants to speak. (Voice of Mr. Sohan Lal was not heard clearly).

Mr. Kishore Chatnani, Chief Financial Officer

The next speaker is shareholder Mr Dinesh Kotecha.

Mr. Dinesh Kotecha, Shareholder

Good afternoon to all of you. Thanks to MD, Chairman, Nina Ma'am and Mr. Khurana Thanks for the opportunity. Big fan of Isgec. We are in the 87th year. The company is older than any of the management. I am pleasantly surprised by the Q1FY21 results, which are at par and the margins have improved compared to last year. I would like to know, any new tie up in Q1 with a foreign company, from several tie ups currently? What are the new government contracts, we must have tendered for some government contracts? And after signing the contacts, but before being initiated, has any contract been cancelled or any variations or change in the contract? Given that we are the leader in the industry and how will the leadership stamp now be imposed, given the COVID experience, the learning from this experience and its impact next 2-3 years performance? Also, how many of our contracts are outside India? What is the stress for our customers and the working capital position now? Has it been eased out from what it was in March 2020? We are a cash rich company, and a bonus has not been declared, would request for the same. Our capital is very small, and the shareholders must be rewarded in a big way. Thank you very much.

Mr. Kishore Chatnani, Chief Financial Officer

The next speaker shareholder is Mr. Ankush Aggarwal who wants to speak. (Mr. Ankush Aggarwal could not connected to the meeting and not spoken)

Mr. Ranjit Puri, Chairman

Mr. Kishore Chatnani, please ask Mr. Sohan Lal to try once again and speak again. (Mr. Sohan Lal could not be heard at the meeting clearly).

Mr. Kishore Chatnani, Chief Financial Officer

Thank you very much. I will hand over the floor back to Mr. Aditya Puri

Mr. Aditya Puri, Managing Director

Thank you, shareholders, for attending this meeting. Some shareholders have asked some questions and I will try my best to answer those questions.

One of the questions was regarding delays and cancellation of orders because of the COVID pandemic. We are fortunate that we have a very insignificant orders that have been cancelled, maybe 2-3%. Some of the orders, though not very significant, customers have deferred them by few months because their sights are not ready. We have written to all our customers regarding the force majeure clause and as of now there is no customer who has reacted adversely. We are taking all legal precautions also to see that the delays that are going to

happen, we do get compensated in terms of time. At many of the sights the customers themselves are not letting us work or our labour and work force is subject to quarantine. So, we are taking all measures to safeguard ourselves. But as of now I do not see this affecting the whole year results of the company. Quarter to Quarter there may be some ups and downs. But otherwise this COVID-19 has not had a major impact on the projects that were there are continuing.

As far as the Philippines arbitration is concerned, now that company has become a subsidiary of Isgec. We do not expect a loss when we sell the company. We however are also contemplating an option open to us today is to run the company because the financials look as though it may be a good proposition. We may likely get good returns from running the company. Decisions will be taken in the next few months whether to run the company or to sell it. Obviously, this has slowed down because of the pandemic and Philippines was hit before India. It continues to be hit by COVID-19, so there has not been any activity or very little activity for the last 6 months. As and when the pandemic situation improves, we would exercise one of the 2 options.

As far as EBITDA Margins are concerned, EBITDA was low last year. It was partly impacted by the cost that we incurred because of the legal cost for the Philippines operations. Now that legal cost is behind us, we will not see any significant cost this year. We do hope this year the EBITDA Margins will be better.

On tie ups, yes, we do have many tie ups. Unfortunately, this quarter overseas people could not come to India and we could not go overseas. So, there have been no new tie ups this particular quarter.

Having said that the order book position is good.

Our Working Capital has improved as of now, it's better than what it was in the beginning of the year. Yes, there are some customers who are stressed, but there are not too many of them. The government policy of making credit available MSMEs is playing out. We do not have too many customers who are not paying or any significant amount which is not being paid. There are odd customers who are in some sort of financial position. But overall, we have been able to improve the Working Capital situation because we are monitoring it much more closely. Liquidity of the company is very important, and we are putting our full efforts towards recovery.

The Finance Minister had announced certain measures. For government contracts below Rs. 200 crores foreign parties are not allowed at all. Indian parties also have to have minimum Indian contract. Also because of the China situation that is happening, many of the public sector companies are putting a clause saying that you will not import from China. We do think that our chances with the government tenders will improve to the extent that foreign competition would be reduced. We will see how it spans out over a period of time. As of now there is no other significant change as far as government tenders are concerned.

And I hope I have answered all the questions.

Mr. S K Khorana, Executive Director and Company Secretary

As of now there is no proposal for Bonus. Before closing the meeting, Ladies and Gentlemen now it's good afternoon, I would like to make some observations. In addition to what

Chairman sir has already stated, that members who have voted, when remote e-voting facility was provided from 15th September to 17th September, the members who are not attending the meeting and have not cast their vote through remote voting can now vote during the 15 minutes after we have finished the meeting. Mr. Rajinder Kumar Bhalla, will scrutinize the votes cast through both remote e-voting and e-voting at the meeting and will make a scrutinizer report. The results along with scrutinizers report will be disseminated on the website of the company as well as on BSE & NSDL within 48 hours from the conclusion of the meeting. Before the voting starts and concludes, I wish to thank all the stake holders who have logged in as attendees. I also thank all the shareholders who could not attend but utilised the opportunity of voting. I also thank Chairman sir, MD and Madam whole time Director, Directors, Statutory Auditor, Cost Auditor and Secretarial Auditor for participating and attending the meeting. I would also thank NSDL for providing necessary facilities for organising the AGM through video conferencing.

Wish you best. Hope to meet you physically next year. Stay safe

Mr. Ranjit Puri, Chairman

On my behalf, I would like to thank you for joining and I wish you and your family safety in these difficult times. Over to you Mr. Khorana

Mr. S K Khorana, Executive Director and Company Secretary

Thank you, voting starts for 15 minutes and the meeting concludes. Stay safe.