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HO-425-S

Date: November 16, 2022

To,
BSE Ltd.
Registered Office: Floor 25,
P J Towers, Dalal Street,
Mumbai – 400 001
Company Scrip Code: 533033

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol Code: ISGEC

Furnishing of Information as per
Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Subject: Transcript of the Conference Call held for Analysts/Investors pertaining to financial performance of the Company for the quarter ended September 30, 2022

Dear Sir(s)/Madam(s),

1. In continuation of our letter dated November 14, 2022 and in compliance with Regulation 30 read with clause 15 (b) of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith Transcript of the Investor Conference Call organised by the Company on Friday, November 11, 2022 at 16:00 hours (IST) with regard to the financial performance of the Company for the quarter ended on September 30, 2022.

2. This information is also being uploaded on the website of the Company at www.isgec.com under "**Investor Relations**" section.

3. The above is for your information and records, please.

Thanking you

Yours faithfully,
For Isgec Heavy Engineering Limited

Sachin Saluja 16/11/2022

CS Sachin Saluja
Company Secretary & Compliance Officer
Membership Number: A24269

Encl: Transcript of the Investor Conference Call

"ISGEC Heavy Engineering Limited Q2 FY23 Earnings Conference Call"

November 11, 2022

MANAGEMENT: MR ADITYA PURI – MANAGING DIRECTOR
MR. KISHORE CHATNANI – WHOLE TIME DIRECTOR AND CHIEF FINANCIAL OFFICER
MR. SANJAY GULATI – WHOLE TIME DIRECTOR AND HEAD OF MANUFACTURING UNIT

Moderator: Ladies and Gentlemen, Good day and welcome to Q2 FY23 Earnings Conference Call of Isgec Heavy Engineering Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwani Sharma from ICICI Securities. Thank you and over to you, Sir.

Ashwani Sharma: Thank you. Good day everyone. On behalf of ICICI Securities I would like to welcome you all for the Q2 FY23 Earnings Conference Call of Isgec Heavy Engineering. Today, the management is being represented by Mr. Aditya Puri – Managing Director, Mr. Kishore Chatnani – Whole Time Director and CFO and Mr. Sanjay Gulati – Whole Time Director and Head of Manufacturing Unit. We will start the call with the opening remarks on the results and outlook by Mr. Puri post that we can have the Q&A session.

I would now like to hand over the call to Mr. Puri for his opening remarks. Over to you and thank you everyone.

Aditya Puri: Thank you Ashwani. Good afternoon everyone and thank you for joining us on Earnings Conference Call. I hope that you and your loved ones are all well and safe. We look forward to a fruitful interaction. You would have seen the quarterly financial results which we have published earlier today. We have also uploaded our presentation on BSE, NSE website and on our own website www.ISGEC.com. This is done earlier today. There is also much more information about our business on our website. The standalone revenue for Q2 FY23 Rs. 1,160 crores compared to Rs. 1,172 crores in Q2 FY22. The standalone revenue for the half year ended 30th September 2022 is Rs. 2,158 crore which is about 9% higher compared to Rs. 1,986 crores for the half year ended 30th September 2021. Standalone profit before tax for Q2 FY23 is higher at Rs. 57 crores against Rs. 31 crores for Q2 FY22. Further for the half year ended 30th September 2022 the profit before tax is Rs. 97 crores which is about 93% higher compared to Rs. 50 crores for the half year ended 30th September 2021. The consolidated revenue for Q2 of FY23 Rs. 1,515 crores which is about 10% higher compared to Rs. 1,379 crores for Q2 FY22. Also, for half year ended 30th September 2022 the consolidated revenue is Rs. 2,765 crores which is 10% higher as compared to Rs. 2,513 crores for the 30th September 2021. The consolidated profit before tax to Q2 FY23 is Rs. 49 crores compared to Rs. 14 crores for Q2 FY22 and the consolidated profit before tax for the half year ended 30th September 2022 is Rs. 79 crores as compared to Rs. 32 crores for the half year ended 30th September 2021. In the standalone results the profitability is closer to normal both for the manufacturing and the EPC segment, the results have also been helped by receipt of dividend from subsidiary companies during the quarter. In the consolidated results the profitability is better because of better profits in ISGEC Heavy Engineering Limited and profit with Eagle

Press & Equipment Company Limited. I will now talk about the order booking. The consolidated order booking for Q2 of FY23 is Rs. 1,508 crores compared to Rs. 849 crores of orders booked in Q2 of last year. The consolidated orders in hand on 30th September 2022 are Rs. 7,762 crore against Rs. 7,518 crores as on 30th September 2021. The order book is satisfactory. Of the consolidated order book 77% is for the project business and 23% is for the product business. The order book includes Rs. 832 crores for export orders which is about 11%. The order book for Isgec Hitachi Zosen is also good which has Rs. 801 crores of orders as on 30th September 2022. The overall demand trend is encouraging as the inquiry position continues to be good, export inquiries have picked up. As informed earlier we have started construction at the Cavite Biofuel Ethanol plant in the Philippine and we are expecting it to be completed by July 2023. We are working on developing the feedstock and preparation for running the plant from August 2023.

My colleagues and I will be happy to answer any questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. We have our first question from the line of Niteen S Dharmawat from Aurum Capital. Please go ahead.

Niteen S Dharmawat: So, wanted to understand what is the contribution from the government sector now in the revenue and what is our target to bring it down further, does it remain same as we have stated earlier?

Kishore Chatnani: So, if you notice is the order book, we have mentioned that of the total order book 44% is coming from the PSU sector. So, yes, we are targeting to reduce it a bit, largely because we are looking at shorter duration orders. Not really because we have any other issue with the public sector orders, but largely because some of their orders are longer duration so we would like to bring it down. So, presently order book is 44% from PSUs largely central PSUs, there are two orders from state PSUs also. We do not have any order directly from the government.

Niteen S Dharmawat: And how was the payment over there and the receivable numbers from the government side?

Kishore Chatnani: There is no difficultly in collecting receivables which are due. The issue that we have been talking about in the earlier calls is that most of the PSUs orders have payment terms which are linked to milestones. While we continue to supply material and cement and so on to the site. It is only after certain construction or erection milestone are done when the payments become due. So, the idea of looking at lower numbers of PSUs orders is to look for better cash flow.

Niteen S Dharmawat: And my second question is about the debt so what is the consolidated debt now we have?

Kishore Chatnani: The consolidated debt is Rs. 1,177 crores as of 30th of September across all the group companies. This was Rs. 1,205 at the end of March 22.

Niteen S Dharmawat: And what is the plan to repay the debt?

Kishore Chatnani: In terms of term loans, we have about Rs. 100 crores of term loans for the Saraswati Sugar Mills which is for the ethanol plant that we established in December last year and Eagle Press has term loan outstanding of about Rs. 30 crores or so and the other term loan is for the Cavite Biofuel Philippine plant. The rest of the borrowing is working capital borrowing.

Niteen S Dharmawat: You mentioned about the export inquiries, so these are coming from any specific geographies?

Aditya Puri: Mostly South East Asia, Africa and Central America.

Moderator: Thank you. We have a question from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Sir, firstly we have seen some improvement in the operating margins sequentially, is it largely because we have a large revenue coming from the product side or is it that the mix is of low margin order that we had taken in the material handling and railway segment as they are now?

Aditya Puri: So, the margins has increased in both the projects and the product business, and your second hypothesis is also correct that there is low margin projects mix is reducing.

Digant Haria: So, is it fair to say that going forward the margin should only continue to improve because the raw material prices are now probably stabilized, or they are down versus what they were 6 months back and we have also consciously become more agile in terms of our pricing. Fair to say that next two or three quarters we will see margins improving projects?

Aditya Puri: Yes you are right it should.

Digant Haria: And my second question is that in the product division this time we had a very large revenue more than Rs. 500 crores, so is there any pattern, seasonality or is it just because the other sector did well, how should we read about this on an annualized basis what revenue can we do here now on?

Aditya Puri: This Rs. 435 crores would probably represent a fair average for the year for manufacturing business.

Digant Haria: Sir so it was Rs. 569 crores?

Aditya Puri: On consolidated basis.

Digant Haria: So, you are saying that this Rs. 569 crore we should read more like Rs. 450 crores as the sustainable quarterly number?

Kishore Chatnani: We should look at Rs. 1,800 crores, Rs. 1,900 crores for the full year.

Digant Haria: And if you can just provide the update on the Philippine plant. I know we started construction last quarter, but how is it progressing and what is the P&L impact per quarter which comes because of payment to the staff and the security and everything there?

Aditya Puri: We started the construction, and our target date was that time also to finish it in a year's time and we are still sticking to the current schedule.

Kishore Chatnani: We will be completing by July 23, and we expect to start the operations in August 23. There is a quarterly cost about Rs. 8-9 crores per quarter which is largely for salaries. This quarter there was a large payment for insurance of the plant also and there has been some impact of the currency depreciation between peso, dollar, and rupee.

Digant Haria: So, this quarter specifically it is more than Rs. 8 crores, Rs. 9 crores.

Kishore Chatnani: Rs. 9 crores to Rs. 10 crores a quarter and obviously once the plant starts then that expenditure will go into revenue for that company.

Digant Haria: And in last question if I may ask that in terms of the end markets how are we seeing the demand and the pricing environment if you can give us slightly more elaborate answer in terms of how is the ordering looking and how are the negotiations happening with the customers for yourself as well as slightly more for the whole CAPEX cycle itself?

Aditya Puri: So, CAPEX cycle it is slowly the sentiment is turning positive. Yes, there are lot of uncertainties because of the Ukraine war and demand in Europe almost finishing and expected recessionary conditions in Europe and North America. But as far as India is concerned demand is holding out and pricing is also okay, we are not facing any major issues right now.

Digant Haria: So, sir fair to say from hearing you it seems that the worst of margins and working capital for us both is probably behind in the next 12 months we will see better for both these financial?

Aditya Puri: 12 month horizon is a fair horizon to see absolutely.

Moderator: Thank you. We have a next question from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

Ashwani Sharma: Sir, you did mention about strong demand, which is seen in CAPEX cycle picking up, but if you could give us some idea if you look at your end markets which sector is looking more promising, or they are doing CAPEX if you can give us some idea over there?

Aditya Puri: Refinery, petrochemicals and also certain equipment that we supply to cement plant, there is demand emanating from there and from the power sector. So these are the sectors that are investing at this point in time.

Ashwani Sharma: So, when you say power, it is government or private?

Aditya Puri: It is a mix of both, but mostly government power include air pollution control equipment also.

Ashwani Sharma: But sir if I look at what inquiry pipeline is there currently and how it has changed over the last 6 months?

Aditya Puri: The pipeline is certainly larger, and it has increased over the last 6 months. It is looking stronger. One sector where there is a little deficiency of demand is demand related to the automobile sector. There the numbers on an aggregate level the numbers are not very promising at this point and in October the car sales are not close to what they were in October 20.

Moderator: Thank you. We have next question from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Sir, what portion of our current order books are on the fixed price basis?

Kishore Chatnani: All the private sectors orders are fixed price, all the export orders are fixed price, with PSU orders many of them have price variation clauses which permit price variation for changes in steel price based on the index, cement price, labor index and fuel and some of them also have further variations allowed for copper and nickel and aluminum, but because 44% of the order book is from PSU. So, most of it has price variation clauses, but as we have been mentioning in earlier calls, only about 40%, 50% of the price variation we are able to pass on. Because, for example, steel which is supplied at structural there we can pass on the price variation, but in the steel is a part of an equipment then the customer is not able to gauge how much steel is gone into it and therefore we do not get an escalation on that. Also, most of the price variation clauses are linked to index. So, there is a steel price index, but actually the steel that we are buying is from the best companies and their prices do not really move exactly in line with the index. So, typically we are able to pass on 40% to 50% of the price variation and when I say variation it means increase as well as decrease.

Anurag Patil: And sir on the low margin legacy projects which are impacting the margins till now, so in the current order book what can be that portion very approx. idea will be fine?

Kishore Chatnani: It is not really low margin projects. Some of these projects have had seen commodity price inflation and that has caused some reduction in margins. Some of these projects have also seen site work, the time for the execution of the project getting extended because of multiple reasons starting from COVID and with the customer or ourselves and so when you say low margins it is not that we took those orders deliberately at a low margin. But the margins that we are realizing are lesser than that because of these reasons that I have explained. So, as Mr. Puri mentioned a little while earlier in about a year's time we should be back to normal profitability fully.

Anurag Patil: Sir in your own ethanol distillery what can be the sustainable margins at EBIT level?

Kishore Chatnani: So, I hope you have noted that we are expanding the distillery capacity from 100 KLPD to 150 KLPD, but I do not have an EBIT number on that readily. So, let me look for it I will try to answer it if I can find it.

Anurag Patil: So, this expansion of 150 KLPD capacity already it is operational, or it is work in progress?

Kishore Chatnani: It is work in progress; it will get operational sometime by the end of January 23.

Aditya Puri: And also, we have to clarify over here that we will be going to 150 and we will be reducing the number of days the distillery will run which will give us efficiencies in operations and will pay back. However, if our distillery can use various raw materials and if it is found to be economical depending on the sugar price and ethanol price we could extend the season, but as of now if this is more for operational efficiency and to reduce the cost of production of unit of ethanol.

Anurag Patil: Sir, for this 50 KLPD expansion how much will be the CAPEX?

Aditya Puri: Rs. 12.5 crores.

Moderator: Thank you. We have a follow up question from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

Ashwani Sharma: My question is on margins, so commodity prices showing some signs of softness, what is your thoughts on the margin improvement on a blended basis if you can touch individual segments that will be more helpful?

Kishore Chatnani: When we say over a longer period of time, if the indication is the same where we have talked about it earlier also, the manufacturing segment 8% to 9% is sustainable in the EPC segment 5% to 6% is sustainable. Some quarter we will have a 1% more some quarter 1% less.

Ashwani Sharma: Sir any thoughts on a mix, where do you see your mix between project and manufacturing because earlier when we look at your number the mix was it was more heavy on the manufacturing and the margins were also better, do you see that it is again changing to the earlier number going ahead?

Aditya Puri: So, we are targeting an increase in the manufacturing turnover by about 15% next year. Project business will certainly not be less than this year, but how much that increases that we will come to know by the time of the next call, but in manufacturing we are targeting a 15% increase in revenue.

Ashwani Sharma: And sir if you could talk about Hitachi Zosen performance? How is the order book over there?

Aditya Puri: The order book is good we just spoke about it. The order book as on 30th September was at Rs. 801 crores.

Ashwani Sharma: And how was the performance?

Aditya Puri: So, the performance was not very good and we will just explain to you.

Sanjay Gulati: The performance of Isgec Hitachi Zosen for the Quarter 2 was not very good because amount of billing done was less, but however the production was good. A lot of equipment are ready for dispatch, and they will be shipped out in the third quarter and the fourth quarter of the year. And the equipment not listed because the buyer was not ready. The shipment was in his port and he was not ready for the shipment, and we recognize the revenue on sale of goods basis at Isgec Hitachi Zosen.

Kishore Chatnani: Somebody had asked earlier about the EBITDA on ethanol operations. So, for the current year we are expecting it to be about 11.5% and once the capacity goes up, we are hoping that it will go to something closer to 12.5%.

Moderator: Thank you. We have our next question from the line of Manish Goel an Individual Investor. Please go ahead.

Manish Goel: On Cavite Biofuel once we start the production next year, what could be normalized, annualized revenues in that business and what profitability we can see and will it only be sugar based ethanol or if you can give some light on it. And number two, once we commence production by that time what will be total investment from Isgec as in parent books how much it will be and what will be the other loan outstanding that is the first question?

Kishore Chatnani: In Cavite Biofuel the annual ethanol production capacity is about 42 million litres and so the revenue expected from the sale of ethanol and the sale of biproducts is something like Rs. 320 crores a year, but it is to be noted that the price of ethanol changes every 15 days it is fixed by the Philippine government, and they take into account the input feedstock price. So, they take into account the price of molasses and the price of sugar cane and based on that the price of ethanol changes every 15 days. So, whatever number I gave you just now Rs. 320 crores is likely to be actually going up in terms of revenues.

Manish Goel: Entirely sugarcane based right?

Aditya Puri: The plant can run both on sugarcane and on molasses.

Kishore Chatnani: And the Philippine government formula, the national biofuel board formula gives 50% weightage to sugarcane and 50% to molasses. Our plant initially will have less of sugarcane as the sugarcane grows, but after about three years we expect to do 210 days on sugarcane and 120 days on molasses.

Manish Goel: Can you repeat 110 days on?

Kishore Chatnani: 210 days on sugarcane and 120 days on molasses in a year.

Manish Goel: By what could be our peak investment in Cavite Biofuel from our balance sheet and what will be the total capital expansion?

Kishore Chatnani: So, the capital expansion investment being done now to complete the plant as I have mentioned earlier is Rs. 180 crores and this Rs. 180 crores is being borrowed from a bank in Philippine and besides this the numbers have not changed we have not given any further money. So, there is a Rs. 50 crore loan outstanding from Isgec to Cavite Biofuels which is earning interest from them and of course the original outstanding amount due to us. So, the number that I remember is Rs. 254 crores of course it changes based on the exchange rate.

Manish Goel: So, what margins and what returns we see probably on this project sir?

Kishore Chatnani: We have mentioned the situation remains the same. We have said that in about 6 years' time we expect to get all our money back while servicing the bank loans also.

Manish Goel: Once the project starts within one year we get our money back like 254 plus 50?

Kishore Chatnani: Pardon me I said 6 years because the bank loan also have to be serviced. So, after that our outstanding, some of it is attracting interest. So, it will take us between 5 and 6 years to get all our money back.

Manish Goel: And sir in India like we mentioned that we are looking to increase capacity from 100 KLPD to 150 KLPD to improve efficiency so that like ideally, we can optimize the number of days of operations, but are we not probably contemplating to use other feedstocks like rice or any other where we can probably run the plant for the entire year?

Aditya Puri: For that more modifications are required in the plants. So, we are not doing that right now. However, we will be exploring the possibilities, not right now but may be a year from now to make the plant fit to run on sugarcane juice efficiently.

Manish Goel: Sir like what we see from the numbers if probably see consol. and standalone and particularly on the manufacturing of equipment we see a fairly good improvement on the profitability side, so what could it have been contributed by, because I believe we mentioned that Hitachi has not done well, so the improvement would be driven by Eagle Press or how is it?

Aditya Puri: Yes, by Eagle Press and Saraswati Sugar Mills has done well and Isgec profitability is also higher standalone.

Manish Goel: Mr. Puri I was referring to when I remove standalone from consol. and particularly on segment for manufacturing of machinery and equipment I see a Rs. 15-crore profit number which is on YoY basis which was a loss of Rs. 6 crores and on Q1 it was just a Rs. 2 crore number, so I was just trying to understand that if Hitachi has not done well?

Aditya Puri: Eagle Press has done very well.

Manish Goel: So, this year we expect Eagle Press to report a decent profit, how do we see it? Because annual report still says that could be a challenging year and then probably after that we can look at 30% growth so trying to understand that?

Aditya Puri: It has been a challenging year and it continues to be a challenging year because of automobile production not going up in North America because of chip shortage. However we are bullish once chip shortage is over people will start investing so the next 6 months maybe challenging, but the previous 12 months the PBT has been positive.

Manish Goel: Because annual report mentions about 30% growth in FY23 so I was a bit curious to like to know that?

Aditya Puri: The chip shortage was not anticipated and this is affecting production, but as of now the previous 12 months it has been positive. In the next one or two quarters maybe challenging for Eagles Press and we expect things do improve after that.

Manish Goel: And last question on Hitachi, last year the profits were just mere Rs. 4 crores as per annual report on a revenue of Rs. 331 crores, so can we expect fair degree of improvement in top line and margins this year or it is still challenging, and we should expect it only next year. Because our order book has been growing quite well in last few quarters?

Aditya Puri: So, the whole impact of the commodity price, because these are long duration orders will be seen next year. This year will be an improvement on last year, but next year we should see a much better improvement.

Moderator: Thank you. We have a question from the line of Ashwani Sharma from ICICI Securities. Please go ahead.

Ashwani Sharma: Two follow up first if you could give us some indication on the execution timeline for most of our markets like FGD, sugar, refineries, metal and chemicals?

Aditya Puri: So, FGD is typically 36 to 50 months. The equipment for refineries and petrochemical can vary if it is Isgec it is normally anywhere between 10 to 14 months, but if it is a joint venture with Hitachi Zosen it could go up to 21 months. Sugar plants and ethanol plants are normally anywhere between 12 months to 14 months and on the process side generally the cycle times are lower.

Ashwani Sharma: The second question I had on the guidance, so earlier you had guided for of 5% growth, is there a change a guidance now?

Aditya Puri: I remember last time I told you that we would give you guidance in March so we will give you it at that time. Right now, things are looking optimistic, but we will give you final guidance if we can in March.

Ashwani Sharma: So, can we assume that this 5% will remain for FY23 in that case?

Aditya Puri: Yes 5% will remain, yes.

Moderator: Thank you. As there are no further questions I now hand over the conference to the management team for closing comments. Over to you, Sir.

Aditya Puri: Thank you so much for attending and keep safe and thank you and all the best. Thank you very much.

Moderator: Thank you. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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