ISGEC HEAVY ENGINEERING LTD.

A-4, Sector-24,
Noida - 201 301 (U.P.) India
Tel.: +91-120-408 50 00
www.isgec.com

Dated: 17-08-2021

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

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

Dear Madam / Sir,

Furnishing of Information as per
SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Subject: Transcript of the Earnings Conference call with analysts and investors relating to Financial Performance of the Company for the quarter ended on June 30, 2021

1. This is further to our letter dated August 10, 2021, wherein we had given an advance intimation of the Conference Call to discuss the financial performance of the quarter ended 30th June 2021 to be held on Thursday, August 12, 2021 at 17:00 hours (IST).

2. In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith Transcript of Earning Conference Call held with analysts and investors.

3. This intimation is also available on the website of the Company at www.isgec.com

4. The above is for your information and records.

Thanking you,

Yours faithfully,
For Isgec Heavy Engineering Limited

SUDERSHAN KUMAR KHORANA

Digitally signed by SUDERSHAN KUMAR KHORANA
Date: 2021.08.17 18:54:20 +05'30'

(S.K. Khorana)
Executive Director & Company Secretary
Contact Number: 9810188045

Encl: as above

"ISGEC Heavy Engineering Company
Q1 FY2022 Earnings Conference Call"

August 12, 2021

ANALYST:	**MR. RENJITH SIVARAM - ICICI SECURITIES**
MANAGEMENT:	**MR. ADITYA PURI - MANAGING DIRECTOR**
	MR. S. K. KHORANA - EXECUTIVE DIRECTOR & COMPANY SECRETARY
	MR. SANJAY GULATI - WHOLE TIME DIRECTOR & HEAD - MANUFACTURING UNITS
	MR. KISHORE CHATNANI – WHOLE TIME DIRECTOR & CHIEF FINANCIAL OFFICER

MODERATOR: LADIES AND GENTLEMEN, GOOD DAY AND WELCOME TO ISGEC HEAVY ENGINEERING COMPANY Q1 FY2022 EARNINGS CONFERENCE CALL HOSTED BY ICICI SECURITIES. 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 CALL, PLEASE SIGNAL THE 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. RENJITH SIVARAM FROM ICICI SECURITIES. THANK YOU AND OVER TO YOU SIR!

Renjith Sivaram: Good afternoon all and on behalf of ICICI Securities, I invite you all for the Q1 FY2022 earnings call of ISGEC. The management of the company will be represented by Mr. Aditya Puri, the Managing Director, Mr. S K Khorana, Executive Director and Company Secretary, Mr. Sanjay Gulati, Whole time Director and Head of the Manufacturing Units, Mr. Kishore Chatnani, the Wholetime Director and CFO. So we will have an initial opening remark regarding the results and the recent outlook by Mr. Aditya Puri and follow it up with Q&A session. I handed it over to Mr. Aditya Puri for the opening remarks. Over to you Sir!

Aditya Puri: Thank you Renjith. Good evening everyone. Thank you for joining us on our earnings conference call. I hope that you and your loved ones are all well and safe.

This is our sixth investor conference call and I look forward to a fruitful interaction. We have also uploaded our presentation on BSE, NSE on our website earlier today. Many of you are familiar with our business. For the benefit of the new investors and analysts joining for the first time, I will give a brief introduction about our business.

We are a diversified heavy engineering company engaged in manufacturing and project businesses. We manufacture process plant equipment, presses and iron and steel castings. We execute turnkey projects for setting up boilers, power plants, air pollution control equipment, sugar plant, distilleries, factories, and bulk handling facilities. We have also developed stress in construction. We address the requirement for the wide spectrum of industries mainly power, fertilizers, sugar and distilleries, oil and gas, automobile component, steel, cement, chemicals, railways and defence. Our presence across multiple industries and geographies as such to spread any sectoral or graphical risks.

Let me talk about consolidated financial results for the first quarter of this financial year. The total consolidated revenue for Q1 of FY2022 at Rs.1,133 Crores is higher by 5% compared to Rs.1,075 Crores for Q1 of FY2021. The consolidated EBITDA of Q1 FY2022 at 36 Crores is however lower compared to Rs. 96 Crores for Q1 of FY2021.

The consolidated profit after tax was Q1 FY2022 is Rs.14 Crores as compared to Rs.42 Crores for Q1 of FY2021. The profitability has been lower due to impact of commodity price increases and production project execution work was impacted adversely in the quarter with the onslaught of the second wave of COVID-19.

Factories were running normal until the third week of the April 2021; however, after that there was a shortfall in production because of nonavailability of oxygen and argon gas. The availability of argon and oxygen gas again normalized from June 2021. In the projects business we had to keep our offices in Noida, Pune and Chennai closed for six to eight weeks in the first quarter and employees worked from home. Offices have been reopened in June with partial attendance being committed on rotational basis. While all projects sites are operational, but considering the fear and panic around, retention of an existing manpower of contractors was a challenge. Some difficulties were also experienced in resource mobilization such as tieing up with testing agencies and procuring tools and cranes. Supervision of erection and commissioning were also adversely affected due to some of the engineers being COVID positive.

As you may be aware commodity prices especially steel have gone up steeply. Prices for steel crates, structures and TMT bars have gone up sharply since January 2021. These have also had an adverse impact on our costs. All the above factors contributed to lower profitability for the quarter. Presently, the working of the project sites improved in July 2021 and is now near normal. Factories are also running normally.

I will now talk about the order booking. The consolidated order booking for Q1 FY2022 is Rs.2,366 Crores which is nearly 4.5 times as compared to the order booking in Q1 of last year. The orders in hand as on April 30, 2021 Rs.7,924 Crores against Rs. 6,560 Crores as on June 30 last year. The order book position remains very satisfactory. Of our consolidated order book about 83% for the project business and 17% for the product business. The order book includes Rs.827 Crores of export orders which is just over 10%. Order booking for ISGEC Hitachi Zosen was also good. It has Rs. 489 Crores worth of orders as on April 30, 2021.

Order fructification during Q1 FY2022 has been good with orders being booked for almost all the products except for presses. Overall, demand trends are encouraging as enquiry position is good. About 50% of our order book is from are 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 we have 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, we are trying to keep higher contingency margins on cost for new orders, but the market is very competitive.

Regarding the Cavite Biofuel ethanol plant in the Philippines, we are on track to restart construction of the plant. Construction is expected to restart by around first week of

October 2021. We continued to think is a good business and will be profitable to run, though we will keep the option to sell it when it is complete.

We have given special emphasis on vaccination and also organized some camps for vaccination at our offices and factories. 99.1% of the eligible manpower, our employees and contractors, workers have received their first dose and 98.6% of the eligible manpower have received both the doses. In general, ISGEC continues to be optimistic about the overall positioning in the market. And with our presence in multiple segments and geographies, robust balance sheet, state-of-the-art infra and manufacturing capabilities, technology partnerships in the right quality of people, we will continue to focus on strengthening our financial metrics and serve the community as people at large. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ankit from Bamboo Capital. Please go ahead.

Ankit: Thanks for the opportunity Sir. If you look at our margins on the EPC side that has declined significantly to almost around 1%, so what has happened in the quarter and how do you see the margins panning out on the EPC side as well as on the system side, over the near to medium term?

Aditya Puri: This quarter, there were a lot of extra expenses at this site as I said in my presentation, to keep this sites going to maintain social distancing, vaccination for employees has also getting labour at a much higher rate because there was all round fear and a lot of people, many of the workers actually left the site, so we had to put in a lot of extra expenses just to keep this site alive and also because there is a steep hike in steel prices, copper, aluminium, nickel, we had to take a hit on that, so that is the reason for the very low margin. The turnover was also lower than the previous quarter and the costs were higher because of the reasons that I just mentioned. These only contributed to lower margin.

Ankit: We will come back to a normalized margin of around 6%, 7% or even higher in Q2, Q3 for the rest of the quarters of this year on the EPC side?

Aditya Puri: We expect rest of the quarters would be quite normal.

Ankit: Okay, on the raw material cost inflows, there was a significant jump on weighted prices across various commodities, so on the PSU side you do as you have always mentioned that you have price variation clause, but we do have a significant order from some private players as well, so how do you think they will pass on the prices of such sharp increasing prices to our private companies from which we have received the orders?

Aditya Puri: From the private companies where we had already received the orders, although we may sort of ask for price increase, but we are not banking on that. This price increase has happened and we have accounted for that. So now steel does not go up any higher or there is not a third wave of COVID, we should be okay in the quarter going forward. We have factored in the increased price.

Ankit: On the order booking side, we have seen significant increase in our order book and the order inflow has been pretty low, recently also they have won quite a few orders, so any outlook on the order book over the next few quarters or for this quarter remaining order book?

Aditya Puri: In most line of our business, the enquiry level is good and sustained and therefore we do not expect paucity of orders. But this quarter, lot of tendering of orders happened. So this quarter being exceptionally good, we do not expect this order booking of Rs.2,400 Crores to continue every quarter, but we will be very comfortably placed as far as the order booking is concerned.

Ankit: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Avadhoot Joshi from Newberry Capitals. Please go ahead.

Avadhoot Joshi: Good evening. Thanks for the opportunity. I am just looking for one clarification. The total order book of Rs.7,924 Crores the split you mentioned in the initial remark that 83% of it is EPC and 17% of it is manufacturing, is that right, what I heard?

Aditya Puri: That is right.

Avadhoot Joshi: How much will be the fixed cost component in this, can you split that one?

Aditya Puri: Roughly 50%, 50%.

Avadhoot Joshi: 50% will be the fixed cost and 50% we can pass it on correct?

Aditya Puri: Yes.

Avadhoot Joshi: Thank you. That is all from my side.

Moderator: Thank you very much. The next question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Sir, my question is mainly that we have touched almost Rs.8,000 Crores in order book probably the highest ever order book and you also mentioned that you can easily get Rs.1,500 Crores to Rs.2,000 Crores of order inflow every quarter, so are we geared up for execution like we have not delayed, the execution of these orders on the committed timelines. How is our preparation on the ground considering COVID and the problem with contractual labor?

Aditya Puri: The problems with the contractual labor are easing out, I am not saying this they are totally finished, but it is certainly much better than what it was in two months ago. It is certainly very much better in that. So one of the things that has happened is that, as a deliberate policy, the shift has been towards larger brand new orders. So if we have larger order book, it will probably be representing small number of orders, so we are geared up to do the order book that we have and geared up to do those on time barring any unforeseen COVID related third wave occurrences. But we are geared up for that and on the manufacturing side, we are making marginal small investment to debottleneck and to increase production.

Digant Haria: Last time, you mentioned that we have probably been missing out an international orders for Indians, there is lot of restrictions on Indians to travel and present and meet clients, any easing up you see in this side or if let us say the next 12 months with travelling restrictions ease can you expect significant orders even in from international side?

Aditya Puri: The booking from international order should improve and we are seeing that the situation has improved in the last few months. We have been able to book some orders, not very high value orders, but orders and started trickling in the export order booking has started again, and in the real time it has happened.

Digant Haria: Lastly, I just saw that we won the first ethanol distillery order from Dwarikesh Sugar, it is almost like six months, we have the new ethanol policy, Sir, what are your general thoughts on how much capex will happen, is that capex profitable or any thoughts on you and your strategy, you said that you will partner with somebody at the right time for one in 1 and 2G ethanol, any thoughts on this Sir?

Aditya Puri: 2G ethanol, we are still looking at the economies of 2G ethanol. But as far as ethanol is concerned, so your question is, ethanol is going to be profitable for us or ethanol people now putting up plants and they were to earn profits?

Digant Haria: My question is mainly for you that entering this whole space, is it going to be from profit accretive for us or similar profit as the existing lines of business?

Aditya Puri: There are ethanol plants which are going to come up and we are also setting up in our own sugar factory our own ethanol plant.

Digant Haria: That is it from my side. Wish you all the best for the next nine months. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Nishit Shah from Aequitas Capital. Please go ahead.

Nishit Shah: Good evening Sir. I want to congratulate on your numbers and your orders. So basically, our order book has been at record high now, so I wanted to understand that are the new orders we are booking has already considered the increase in price hike and contingency of raw material volatility?

Aditya Puri: Yes, the new orders yes, certainly.

Nishit Shah: Secondly, I wanted to understand is that you said that we are doing debottlenecking, so can you please elaborate which particular segments are we looking at and what kind of capacity addition?

Kishore Chatnani: Yes, of course, it is all in the manufacturing segment.

Aditya Puri: It is all in the manufacturing segment, it is in the foundry area, where we are doing some marginal investment and increasing its capacity, by nearly 50%. And also on the pressure parts, we are finding debottlenecking to increase. We have also been approved by DRDO for oxygen plants and we got our first order. This is just a year in now, we are doing some marginal investment for that.

Nishit Shah: Can you please repeat how much in the pressure part?

Aditya Puri: I cannot give you the exact figures, but it is not very significant, the investments are not significant, not very major. It is not we are investing Rs.50 Crores or something that in each one.

Nishit Shah: Rs.50 Crores is overall?

Aditya Puri: It is not that. It is not very significant, but this is to increase capacity because the order booking is good.

Nishit Shah: Okay. Thank you. That is all from my side.

Moderator: Thank you very much. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Thank you for the opportunity. I just have one question. Most of my other questions have been answered. As of now we supply boilers for the ethanol application, my question is pertaining to, can we supply the entire plant for the ethanol and are we thinking in those directions or we have not really keen for that?

Aditya Puri: We are actually supplying the complete plant for ethanol.

Kunal Sheth: Okay and this is our own technology, or have we tied up with any one for this?

Aditya Puri: This is our own technology.

Kunal Sheth: Okay and we have been supplying this entire plant or this is the recent phenomenon?

Aditya Puri: We have been supplying, in a small scale we have been supplying.

Kunal Sheth: Out of our total ethanol plant, what would be our scope of opportunity then Sir?

Aditya Puri: We can do complete ethanol plant; however, the customer may not want us to do few things. Some customers say that I will do the civil work, or some customers say that you know I already have a turbine, so he excludes that. But we are capable of and we can do everything if he gives us the flat piece of land, we can do everything.

Kunal Sheth: Okay and we are capable of handling most feedstock is it Sir?

Aditya Puri: Yes.

Kunal Sheth: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Good evening Sir. My first question is, we understand some of the extra costs in Q1, would your margin guidance continue to remain the same in the past you have highlighted 8% on EPC and 13%, 14% on products, may be if not for this year at least for next year?

Aditya Puri: Yes.

Deepesh Agarwal: Also there is a large Barmer order for boiler is expected, what would be the bidding timelines, and would we be key player for this?

Aditya Puri: Sorry, can you just repeat your question, I did not get your second question, there is a boiler order?

Deepesh Agarwal: Barmer refinery I guess, there is a larger boiler order which is expected this year, can you help us with the timeline and how large this could be?

Aditya Puri: I cannot disclose the numbers.

Kishore Chatnani: We cannot talk about the orders which are not booked by us.

Aditya Puri: But I think they should be ordering in the next two to three months. it come to the stage when I think there should be ordering within the next two or three months. The enquiry has not come out as yet.

Deepesh Agarwal: Can you talk about our initiative on the green side, so how we are looking at turning the company into greener company? Are we looking at fuel cells, hydrogen, or greener technology?

Aditya Puri: We certainly are looking at the greener technologies. We are looking at how the landscape is changing in India and world over. We are very much aligned to it and at the right time we will strike let me put it in that way.

Deepesh Agarwal: Thanks.

Moderator: Thank you. The next question is from the line of Levin Shah from ValueQuest Investment. Please go ahead.

Levin Shah: Thanks for the opportunity. Sir, my question is on the order booking that we have seen during this quarter, so the order inflow has been very strong, if you can just throw some light on what are the kind of segments or industry from where you will see this kind of good order inflows?

Aditya Puri: Basically, the orders have come up from most of the industry that we cater to. We feel that the textiles and automobile sectors have been sluggish during the last quarter, although textile in July started picking up. But by and large, I cannot pinpoint any one particular segment. But we have got orders from pharma, we have got orders from chemicals, from metals, refineries, fertilizer plants, power plants, so the entire gamut except we feel that industries that are linked with automobile and textiles have not really picked up, although in July, they have also done better.

Levin Shah: Okay, have you seen any large orders flowing through and some of the larger order contributing majorly because you spoke about it in the earlier part that going forward the order inflows run rate may not continue at this rate?

Aditya Puri: Yes, I did say that it may not continue at this rate, because if it were to continue at this rate, we would not be able to execute Rs.10,000 Crores of orders in a year, we are not geared afterwards that so we may not even take those orders. But many time bunching of orders happens and in capital goods quarter-to-quarter is not long time enough to say whether the order booking has been good or not, but this one quarter has been very good and we expect the next quarter to be also very strong. But we may not like to take all the orders and it may not be Rs.24,00 Crores that we book this quarter. But it is not saying that we are seeing any sluggishness in the economy.

Levin Shah: My second question is on the sugar orders or the order from the sugar industries, so what we have seen during last quarter is lot of new announcements from the sugar mills for putting up fresh capacities, so are we seeing that trend in our enquiries and order inflows and do we see that going forward as well, there would be substantial order inflows from sugar business?

Aditya Puri: What the sugar mills are basically doing is again debottlenecking to increase capacity and we have got from a number of sugar mills orders for incremental increases in capacity. Although there are not too many people who are investing in fresh Greenfield plants where you can expect very big orders.

Levin Shah: Right, but on the distillery front, there are fresh Greenfield plants that are announced, so are we catering to that market?

Aditya Puri: Yes. We have got the order for one distillery just very recently last quarter, this April to June quarter.

Levin Shah: What would be our market share in this sugar distillery business, any ballpark range, or any number that you would like to put as far as our market share is concerned in the domestic market?

Aditya Puri: In the sugar it is very high, it could be about 50%, but in the distillery sector, we have new entrants, it should be broadly very high may be about 15% or something like that.

Levin Shah: Thanks for the opportunity and all the best.

Moderator: Thank you very much. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Looking at this company recently I do not have too much of the background. I just wanted to understand you have quite or few subsidiaries, joint ventures in your company, I just wanted to understand what is your longer term strategy in terms of - are you going to be continued to focus on EPC or you want to increase your manufacturing business. And also see our sugar subsidiary you are putting up an ethanol plant. So I just wanted to understand how will the capital allocation policy will be going forward and how do you see this company may be three, four years from now. Would you look at may be demerging some of these businesses and run it separately, so just wanted your thoughts on that?

Aditya Puri: As of now, the order book, which is good in the main companies is also good in all the subsidiaries, so there is no plan to shut any subsidiary or to demerge any subsidiary. If there is an opportunity at some stage, yes, but we are not looking at that as of now. So to answer your question, every quarter we do take a stock of what it is happening and we have annual budgets and plans in each of these subsidiaries. We are not planning any major capital investment, but at the same time if an opportunity comes, we may take it. So capital allocation in those terms we have not thought about anything very significantly at this point in time, but Kishore would you like to say anything more on that?

Kishore Chatnani: There are no plans to put any major money into any subsidiary as Mr. Puri just explained and he also explained that there are some small capital investments in the manufacturing segment, but that is largely about the fresh capital to be deployed. There are no major fresh large investments to be made.

Mithun Aswath: I am just saying what about the sugar business?

Aditya Puri: Sugar business is comfortable for us and we plan to continue with that.

Mithun Aswath: I am just trying to understand, would that kind of be little bit different from your mainline businesses, we want to hive off that business into separate entity and I just wanted to understand what is your thoughts on that. Because you are spending quite a bit on the ethanol facility right. So I just wanted to understand what is the contours of that in terms of how profitable in that business likely to be and when is that likely to be commissioned the ethanol business?

Aditya Puri: Ethanol business is likely to be quite profitable and it is going to be commissioned next month hopefully.

Mithun Aswath: What kind of utilization do you see in the ethanol business this year and if you can just take us through in terms of what sort of return on capital employees can we expect from that?

Aditya Puri: Kishore, the capital employed?

Kishore Chatnani: This year because is going to be starting now and sugar business, it helps to be looked at not as a standalone distillery, because it is going to be buying or transferring the molasses from the sugar business and this year of course we are carrying some molasses stock. But from next year onwards we are going to B-heavy behavior of molasses, so which is the intermediate process in the manufacture of sugar. There will be some less production of sugar and more production of this B-heavy molasses. This business needs to be looked at combined in between the sugar and the ethanol plant. Obviously, it will give us flexibility to decide when to make more sugar or to make more ethanol depending on the prevailing price of sugar and the government mandated price of ethanol, so it will give us lot of flexibility to decide where the profits will be more. So it is going to run for part of the year or this year I do not think the return on capital employed number make sense at this point of time.

Mithun Aswath: But over the longer run in the medium term, what kind of return on capital employed we expect from there?

Kishore Chatnani: I would imagine it will be more upwards of 15%.

Mithun Aswath: Thank you so much.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: Thank you so much. I had few questions Sir. Just to clarify the order inflow number what you mentioned is it for year till date or it is entirely in Q1, because the list of orders what you have stated in the presentation has certain orders which were announced recently, so if you can clarify what was the order inflow in Q1 and year till date?

Kishore Chatnani: All of these orders which are listed on slide #31, these are all orders from Q1.

Manish Goyal: What was that number, I missed that number Kishore Ji?

Kishore Chatnani: So, Rs. 2,366 is the number for the quarter on a consolidated basis. If you are looking for the standalone number, standalone inflow is Rs. 2,131.

Manish Goyal: Comparable number last year?

Kishore Chatnani: Last year that number for Rs. 2,131, comparable was Rs. 442.

Manish Goyal: And on consolidated Sir?

Kishore Chatnani: Consolidated, this quarter number is Rs. 2,366 and for last year same quarter was Rs. 526.

Manish Goyal: On operation side, just want to clarify, so in Q2 we would be seeing a normalized operation in terms of say supply chain disruptions are not there, labor availability is fine and from those all aspects do you expect that we have probably achieved a normalized production run rate in the current quarter Sir?

Aditya Puri: I can say that it is normal at this point in time, so it has been improving from the third week of June. So some bit of July would also will be less than optimal but it is normal now.

Manish Goyal: Sir, if you can also give us the perspective how do you expect overseas subsidiaries and the JVs to perform in the current year, I believe Hitachi Zosen you mentioned order book is Rs.489 Crores?

Aditya Puri: That is right.

Manish Goyal: If you can help us with how you expect in the current year, JVs to perform and even overseas Eagle Press, it will be helpful.

Aditya Puri: We are expecting the performance of all JVs to be better than last year. If there are no unforeseen things like third COVID wave or something then we expect better.

Manish Goyal: We expect Eagle Press to turnaround in the current year?

Aditya Puri: Yes, current year. It has a healthy order book now. Ever since the US economy has opened up and movements are allowed.

Manish Goyal: On Cavite, we mentioned that we are looking to start balance construction activity from the October 1, so what kind of capex we are looking to incur for that facility and how does it get funded Sir?

Aditya Puri: We are looking at a capex of about Rs.170 Crores to Rs.180 Crores including pre-operating and all those several expansions and we are looking to take a loan which has been approved by one of the banks. This is just we give a guarantee for that loan, but it will be through the debt route.

Manish Goyal: Okay, Sir, we are still open to looking for a buyer and probably exit?

Aditya Puri: Buyer, we have enquiries and one potential customer, is very deep state of due diligence at this point in time.

Manish Goyal: So, we can continue constructing and if we get a buyer, we are open to selling it?

Aditya Puri: You are correct, absolutely.

Manish Goyal: Last question just to clarify again on the margins, so we expect that in current year despite subdued Q1, we expect for the full year EPC margin should be between 7% and 8% and for the manufacturing equipment it should be 12% to 13%?

Aditya Puri: We expect the margins to come back to be normal in the next few quarters, so we are inspecting the next few quarters and the year-end to be quite normal.

Manish Goyal: As far as the commodity inflation is concerned, basically we expect that large part of the impact is already felt in Q1 and may be in Q2 and going forward we should be able to get back to our normalized margins. Is that a fair assumption Sir?

Aditya Puri: Absolutely.

Manish Goyal: Thank you so much Sir.

Moderator: Thank you very much. The next question is from the line of Sanjay Kumar from iThought PMS. Please go ahead.

Sanjay Gupta: Couple of questions. So, we got into new segments to compensate for the drop in private capex like we got into water treatment, civil infra for railways and even material handling, what are the margins on these segments, if not Q1 at least FY2021 margins?

Aditya Puri: FY2021 margins as I said have a slight increase but the new orders that we have got in these segments are at improved margins.

Sanjay Gupta: If not the numbers, are you comfortable with where we are and at least in these segments, because are they viable to continue in long term, the reason we got into these was to make up for the private capex, once the private capex restarts, will you stop doing this, something like material handling while it gives us good volume, because it is difficult business, right?

Aditya Puri: In fact, we have been able to do quite well. We have not had too many technical problems or difficulties in execution apart from what is common to all orders which have been COVID and commodity price hike, there has been anything, I would say there have been too many surprises or unpleasant surprises.

Sanjay Gupta: Okay, what would be the current share of material handling in civil infra overall order book, so you will continue doing these projects going forward?

Aditya Puri: Yes, we will.

Sanjay Gupta: Any idea on the share of these projects in the overall book?

Aditya Puri: Overall, order book today, these should constitute may be 15% or 20% of the order book.

Sanjay Gupta: Second questions, our government share of order book has gone from 40%, 47%, right now it is 55%, so working capital will go up right and given we are starting the construction of Philippines plant and again the debt payment is starting from January 2022, if I am remember correctly. So, are we comfortable in terms of our liquidity and you spoke about debt what will be the quantity of the debt and any quantitative answer on our cash position?

Aditya Puri: Cash position has been very comfortable, and we do not expect any problem as far as the liquidity is concerned.

Sanjay Gupta: Can you just give the quantitative number for the construction and the debt repayments run rates?

Kishore Chatnani: The borrowing for the Philippines plant will be done by the Philippines company, some bank in Philippines, so debt will be serviced by that Philippines company only that could always serviced by ISGEC Heavy Engineering to bring the course of step down subsidiary for us. The debt that has been approved by the bank is $24 million equivalent in Philippines. As far as ISGEC's own cash position or borrowing position is concerned, as of June 30, our net standalone borrowing Rs.106 Crores.

Sanjay Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Levin Shah from ValueQuest Investment. Please go ahead.

Levin Shah: I had a followup. If we avail on the margins front, now when we say normalized margin what kind of margin range are we looking at in both the segments?

Aditya Puri: I would just say that given the volatility of the situation we do not want to be over optimistic but commit we should be back to normal levels of margins with this year and improve for next year.

Levin Shah: These normalized margins are the margin that we have done in FY2021 or we are looking at bettering that for full year?

Aditya Puri: FY2021 may be slightly better than this. The revenue and the profit for this year should be a little better than last year.

Levin Shah: Got it and if you look at the composition of the order book that we have now versus the kind of execution that we have had in the past. In total order backlog projects contribute around 83% of the backlog and if you look at the execution that has happened in the last two, three years, the product business is 30% and the balance 70% is projects. So moving forward with higher project business our company level margin should come down because of the lower margins in the project business, is that understanding correct?

Kishore Chatnani: That is not correct, because project orders are typically longer cycle times than the manufacturing orders. So manufacturing orders will typically be from four months to let us say at the most 12 months, 15 months whereas project orders they get executed over 16 months to sometimes even 30 to 35 months.

Levin Shah: So, the split in the revenue of the execution would broadly remain 70%, 30% what you are trying to say right?

Kishore Chatnani: Yes, between 70% and 75% for EPC.

Levin Shah: Got it. So though order book share is higher what like you said the timeline is stretched in the project business and hence the execution would be similar to what we have done in the past.

Kishore Chatnani: Right.

Levin Shah: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Aashna Manaktala from ICICI Securities. Please go ahead.

Aashna Manaktala: Good evening Sir. I wanted to ask how has been the performance of Hitachi Zosen and the Canadian entity in this quarter?

Aditya Puri: Hitachi Zosen has shown a slight bounce in this quarter which we are hopeful in the recovery, but this is purely COVID related thing which are beyond our control. For the full year, we should be fine both in terms of revenues and profit. The Canadian subsidiary should turnaround this year and Hitachi Zosen should be back on.

Aashna Manaktala: How has been the Presse business?

Aditya Puri: The Presses as I said have been low because of the automobile related, but again July has been an improvement in the Presses.

Aashna Manaktala: Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Raj Rishi an Individual Investor. Please go ahead.

Raj Rishi: You said that your market share in distillery would be around 15% for ethanol, right?

Aditya Puri: Something like that.

Raj Rishi: So considering the perspective I have is the blending target which needs to be met around Rs.1000 Crores retails worth of ethanol capacity fresh has to come up, do you agree with? So what would be your aspirational and what sort of target market share would you have for this?

Aditya Puri: We would be happy if we are able to get orders for about three to four complete distilleries in India. We do not want to overstretch ourselves, it is a little bit of here and sort of business, once the investment comes in it is not going to continue at the same rate, so we have seen with rush of people wanting to invest, but we would be happy if we are able to do three or four complete distilleries per year.

Raj Rishi: Okay and each distillery order will be approximately how much?

Aditya Puri: It depends on the size of the distillery, but it could vary from Rs.80 Crores to Rs.180 Crores, so it could Rs.200 Crores, it could vary, and it does vary.

Raj Rishi: Mr. Puri, you eluded to the fact that suppose you will not be willing to take more orders because of the execution part, so when do you think your execution would be of higher a level which will enable you to take those kind of orders like what are you doing to scale up the execution part?

Aditya Puri: We will keep monitoring the situation and if the demand is going to be long-lasting we will sort of scale it up. But as of now, we will periodically keep checking the market for that. But it is not that we are looking for 60% share. The thing is there are some dominant players in the market, we are making an entry into, we made an entry into this and we would be happy with it being 15% and we go up to 25% market share, but we would be very happy with that.

Raj Rishi: My question was not for the distillery part, it was all you said that you will be not taking new orders because you would be apprehensive of the execution part right, overall?

Aditya Puri: Overall, so marginally expanding our capacity, we have been doing it for a period of time, right now also we are expanding capacities. Like in one year we will not expand our capacity to do a turnover of Rs. 10,000 crores from engineering division, from the standalone company. So, we will marginally keep and seeing, and we see very good opportunities then we will take a call and invest to increase the capacity.

Raj Rishi: What is your vision for manufacturing, you expect it to be as a percentage at a similar level or you think it will go up as a percentage?

Aditya Puri: We are looking for opportunities to increase our manufacturing output, we are looking at opportunities and therefore we are making these investments, right now these are marginal investments, but if there is any opportunity, which comes we will not shy away from f making up these investments.

Raj Rishi: Thanks a lot.

Moderator: Thank you very much. We will take last question that is from the line of Ritika Gupta an Individual Investor. Please go ahead.

Ritika Gupta: Good evening. Sir, I wanted to know the debottlenecking at Yamuna Nagar, what kind of revenues could we expect it from the debottlenecking?

Aditya Puri: We are expecting our manufacturing output will go up by about 10%.

Ritika Gupta: Okay, so that means around Rs.120 Crores, Rs.130 Crores?

Aditya Puri: It is about Rs.100 Crores, Rs.110 Crores.

Ritika Gupta: We are taking the loan in the Philippines Company, so where do you plan to use the cash that we generate in the standalone ISGEC for FY2022?

Aditya Puri: Basically, we are waiting for the opportunity to come, but we waited for enough.

Ritika Gupta: Okay and how is order booking for the FGD segment going on?

Aditya Puri: It is good. We have got NTPC orders then we will start state order also. And in FGD, there are both technologies by and we are spending for FGDs and the coal plants are coming up with all sorts of solutions that we are processing itself. Overall, I would say coal based power plants, air pollution coal market is big, and these are almost entire range technology to cater that. So just to put in perspective, there are some stance which we have should not make right now, so they want to go in for a technology with low on captive, but high on operational cost and we have the technology for that also so we expect that market to come up.

Ritika Gupta: So what percentage of our order book would be FGDs?

Aditya Puri: I would say may be about 15%, 18%.

Ritika Gupta: My last question is when do we plan to reach Rs.10,000 Crores of revenue?

Aditya Puri: Last time it was $1 million?

Ritika Gupta: It was a billion dollars, right?

Aditya Puri: Right, so Rs.10,000 Crores, may be three years.

Ritika Gupta: Thank you so much Sir.

Moderator: Thank you very much. That was the last question. I now hand the conference over to Mr. Mr. Renjith Sivaram for closing comments. Over to you Sir!

Renjith Sivaram: Thanks Bilal and thanks management for taking time out for answering all these questions and thank you all the participants for your insightful questions and taking time out to attend this call. Sir, do you want to make any closing comments?

Aditya Puri: Be safe all the best and we should meet again next quarter.

Moderator: Thank you very much participants. On behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

Contact Details

ISGEC HEAVY ENGINEERING LIMITED, INDIA

Registered Address: Radaur Road, Yamunanagar – 135001, Haryana, India

CIN No. L23423HR1933PLC000097

Email: skkhorana@isgec.com

Website: http://www.isgec.com/.