Equity Research

September 3, 2020

BSE Sensex: 39086

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Company update and TP change

Capital Goods

Target price: Rs350

Target price revision

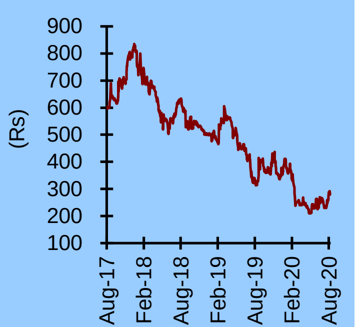
Rs350 from Rs330

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	62.3	62.4	62.4
Institutional investors	12.4	12.2	12.2
MFs and others	10.5	10.6	10.6
FIIs	1.9	1.6	1.6
Others	25.3	25.4	25.4

Source: NSE

Price chart



INDIA

ICICI Securities

ISGEC Heavy Engineering

BUY

Maintained

On a strong footing despite headwinds

Rs269

ISGEC Heavy Engineering is currently at an inflection point in terms of transition towards higher proportion of turnkey contracts and execution of projects in diversified segments like emission control, factory construction, coal handling etc, which are relatively new segments for the company. The working capital intensity is likely to increase in the near term due to change in mix towards EPC and FGD; however, we believe, the company has strong balance sheet to manage the same. Delay in the sale of the Philippines factory and high remuneration by promoters (~11% of PBT) are certain risks keeping the valuation at lower levels. Given the healthy growth and order intake outlook, we maintain our BUY rating with a revised SoTP-based target price of Rs350 vs Rs330, previously.

- **Healthy orderbook and pipeline:** Despite the challenging environment, ISGEC was able to book Rs5bn worth of orders in Q1FY21 and is L1 in another Rs8bn worth of orders. The company is confident of traction in government-related ordering and orders related to FGD, civil infra and refinery in FY21. Around 47% of the current orderbook is from the government and the company is exploring opportunities in defence, buildings and factories including small airports, etc. The current orderbook at Rs59bn (1.3x TTM sales) lends growth visibility.
- **Diversification and cost rationalisation have reduced dependence on sugar:** The company has gradually reduced its dependence on the sugar cycle with diversification towards new segments. Material handling, buildings and factories, emission control etc. are some of the new segments identified to gradually reduce the dependence on sugar sector. Hence, despite a weak cycle of sugar industry, the company is able to witness strong order intake and healthy revenue growth.
- **Strong ordering pipeline led by government capex:** The company is confident of traction in government-related ordering and orders related to FGD, civil infra and refinery in FY21. Around 47% of the current orderbook is from the government and they are exploring opportunities in defence, buildings and factories including small airports etc. On FGD front, ISGEC will participate in NTPC Lot 6 FGD tenders; company is witnessing enquiries from Uttar Pradesh, Tamil Nadu and Haryana for the same.
- **Sale of Philippines plant delayed due to Covid-19 outbreak:** ISGEC will have to spend on retaining the current manpower and ensuring security of the facility. Hence, consolidated margins are likely to get impacted by Rs100mn-120mn per annum. The entity has a debt of US$35mn and pending construction work worth ~US$15mn.
- **Maintain BUY:** Given the healthy order intake and growth outlook, we marginally increase FY22E standalone target P/E multiple to 13x from 12x. We value ISGEC Hitachi Zosen at Rs19 (25x FY22E earnings) and Saraswati Sugar Mills at Rs15 (5x FY22E earnings). We maintain our BUY rating on the stock with a revised SoTP-based target price of Rs350 vs Rs330, previously.

Market Cap	Rs19.8bn/US$271mn
Reuters/Bloomberg	ISGE.BO / IGSEC IN
Shares Outstanding (mn)	73.5
52-week Range (Rs)	437/209
Free Float (%)	37.7
FII (%)	1.9
Daily Volume (US$/'000)	174
Absolute Return 3m (%)	10.6
Absolute Return 12m (%)	(14.9)
Sensex Return 3m (%)	16.2
Sensex Return 12m (%)	5.9

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs bn)	41,289	48,937	41,443	44,150
Rec. Net Income (Rs bn)	1,283	1,531	1,361	1,786
EPS (Rs)	17.5	20.8	18.5	24.3
% Chg YoY	7.9	19.3	(11.1)	31.2
P/E (x)	14.7	12.3	13.8	10.5
CEPS (Rs)	26.4	30.8	28.1	34.0
EV/E (x)	6.9	7.2	7.8	5.6
Dividend Yield (%)	0.8	0.8	0.6	1.0
RoCE (%)	10.1	10.2	7.9	9.5
RoE (%)	10.0	10.9	8.9	10.7

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Outlook and valuation

Current standalone orderbook at ~Rs63bn provides growth visibility and the order pipeline looks promising. We believe execution should gather pace with the current orderbook providing revenue visibility in near to medium term. Public spending on infrastructure, emission norms and railway projects provides order visibility. We factor-in 8% earnings CAGR over FY20-FY22E and maintain our **BUY** rating with revised SoTP-based target price of Rs350.

We value the standalone business at Rs316 (13x FY22E earnings), ISGEC Hitachi Zosen at Rs20 (25x FY22E earnings) and Saraswati Sugar Mills at Rs19 (5x FY22E earnings), arriving at an SoTP-based target price of Rs350.

Table 1: SoTP valuation

	Method	P/E Multiple	FY22E earnings	Value (Rs mn)	Holding (%)	Holding Value (Rs mn)	Per Share (Rs)
Standalone	FY22E P/E(x)	13	1,786	23,216	100	23,216	316
Saraswati Sugar	FY22E P/E(x)	5	222	1,109	100	1,109	15
ISGEC Hitachi Zosen	FY22E P/E(x)	25	107	2,671	51	1,362	19
Total						**25,687**	**350**

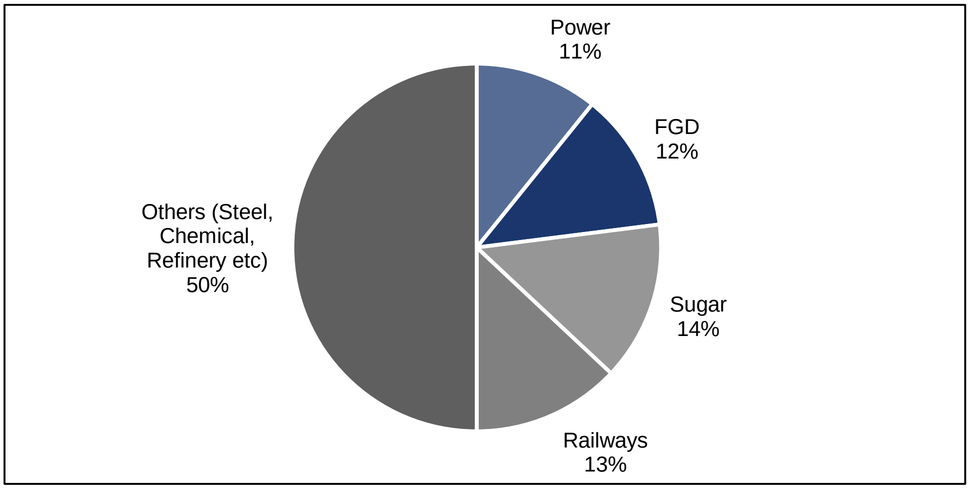
Source: I-Sec research

Table 2: Orderbook breakup

	Rs bn	%
Consolidated Orderbook	**65.5**	**100**
Project	51.1	78
Product	14.4	22
Export	13.1	20
Domestic	52.4	80
Standalone orderbook	**59.0**	**100**
Project	50.2	85
Product	8.9	15
Export	10.5	18
Domestic	48.5	82

Source: Company data, I-Sec research

Chart 1: Industry-wise consolidated orderbook break up



Source: Company, I-Sec research

Key highlights

- Order intake for Q1FY21 was Rs5bn resulting in consolidated orderbook of Rs65.46bn and the company booked Rs4bn worth of orders in July'20. While not many cancellations have been witnessed, customers representing 2% of orderbook have deferred the inspection or dispatch of ready equipments.
- On the operational front, all factories working at full capacity and offices have 50% workforce with alternated day roster. At sites, although 95% of the required manpower is available, productivity is low as exact skills are not available.
- On the supply-chain side, large vendors are operating at full capacity and small to medium vendors are operating at 50-100% utilisation.
- Project orders may get delayed by 3-6 months (usual timeline is 1-3years) and product orders are expected to get delayed by 1-2 months where usual execution timelines are 6-16 months. Management expects H2FY21 to be largely similar to H2FY20.

Improving subsidiaries performance hit by Covid-19 crisis

- Hitachi Zosen, where revenues are driven by sectors like refinery, petchem, fertiliser and power, is booked for FY21 and early FY22. FY20 revenues were low due to delay in dispatch of material due to Covid-19 outbreak and Q2 will also be low as a lot of material was stuck in Mumbai port.
- Lockdown in Canada in March and April, impacted Eagle Press' performance in FY20 and the management expects handsome returns in next 2-3 years.

ISGEC will continue to capture opportunities in FGD - The company will be participating in FGD lot 6 NTPC tenders where payment terms are more relaxed than initial lots. There are certain bids from states that may finalise in next 3-4 months. Currently, Rs6-7bn of execution is pending for FGD orders. Given the recent China-related issue, competition from Chinese companies may reduce which will be beneficial for the company. Also, most of the material that was needed to be imported from China for FGD projects has already been imported.

Cost optimisations to tackle the impact of Covid - Majority of fixed costs include 1. Rs260mn per monthly salaries and 2. Rs300mn per monthly facility maintenance, electricity bills etc, company has undertaken some permanent cost saving measures, like reduction in travel costs, inspection of goods at suppliers end and IT initiatives for design and collaboration. The company has cut employee cost by 15% in FY21, while MD and Whole-time Director remuneration may take a cut of ~75%.

Plans for ethanol plant to continue - Apart from Rs1.8bn capex for ethanol plant, company doesn't see any material capex (~Rs150mn for FY21). Commercial production of ethanol plant (110klpd) is expected to commence operations by Jun'21. This will be executed by in-house project team.

Business segments – Manufacturing and EPC

Table 3: Manufacturing and EPC

Manufacturing (24% of FY20 revenue)	EPC (76% of FY20 revenue)
Process Equipment	Sugar Plants & Distilleries
Presses	Bulk Material Handling
Iron & Steel Castings	Buildings & Factories
Build-to-Print equipment	Industrial Waste Water Treatment
Boiler Tubes & Panels	
Liquified Gas Containers	

Source: I-Sec research

Manufacturing segment (24% of revenue)

Segment includes manufacturing of presses, process equipment, liquefied gas containers, tubing & piping, iron & steel castings and industrial machinery**.**

Presses

The technical collaboration with AP&T, Sweden for hot forming hydraulic presses will help in securing orders to meet new safety norms (crash testing) issued by the Automotive Research Association of India (ARAI).

Given the slowdown in auto sector, which has been affecting mechanical presses orders, the company is focusing on increasing its market share in specialised hydraulic presses such as die spotting, high capacity cold forging presses, powder compacting presses and specialised defense presses.

Also, electric vehicles (EV) contribute to the demand for hot stamped components and the company received an order for 1,000T hydraulic press for manufacturing hot stamped components.

Chart 2: Press machines in Yamunanagar facility of ISGEC

Source: Company, Isec research

Process equipment

Order booking for the year for the division was low as major projects in both domestic and overseas market for refineries, petrochemicals and fertiliser were delayed. Some of the major orders secured in FY20 included:

- Two orders for heat exchangers from ongoing projects for export to Thailand.
- A volume compensator vessel order from the defence sector.
- An order for crude distillation unit (650 MT) / vacuum distillation unit (900 MT), which will be completely manufactured at site.
- An order for in-situ repair of hot and cold evaporator as well as modification of Packinox exchangers from a refinery.

The division completed manufacturing its heaviest heat exchanger of 380 MT and its longest Helical Heat Exchangers of 291 MT with 30 metres length.

Chart 3: Critical process of fine drilling of holes of heat exchanger

Source: Company, I-Sec research

Chart 4: Process equipment from Yamunanagar facility

Source: Company, I-Sec research

Table 4: Products under process equipment

Reactors	Shell and Tube Heat Exchangers	Columns and Towers	Boiler Drums & Pressure Parts	Power Plant Equipment (Licensee of Foster Wheeler)	High Pressure Vessels
Continuous Catalyst Regeneration (CCR) Reactors	High Pressure Exchangers (Breech Lock Closure Type)	Large diameter columns	1000+ Boiler Drums	HP & LP Feed Water Heaters	Hot & Cold HP Separators
Hydro processing Reactors	Helical Baffle Type Heat Exchangers			Water Cooled Surface Condensers	Inlet Separators
NapthaHydrotreating (NHT) Reactors				Steam Drums	
Ethylene Oxide (E.O.) Reactors					

Source: I-Sec research

Liquefied gas containers

ISGEC expanded capacity by 30% in FY19 in order to cater to increased demand. The company is a global leader for supply of chlorine ton containers. Some new greenfield orders have been put on hold as most customers (caustic soda plants) are running on low utilisation due to Covid-19 crisis. The demand for liquefied gas containers from caustic soda plants depends on demand from aluminium and textile industries.

Chart 5: ASME - convex to pressure/chimed ends

Chart 6: Refrigerant gas container for DOT

Source: Company, I-Sec research

Iron castings

- The iron foundry caters largely to soda ash, tool and die and paper industries.
- Major success was achieved on the export front by booking large value orders from the soda ash industry from European markets.
- The company is currently developing compressor body and ductile iron cylinder castings for gas compressors and a trial order for three sets of compressor body castings is under execution for an overseas soda ash manufacturer.

Steel castings

Due to delivery and quality issues, the steel casting unit incurred loss for the first time in FY20. As markets for the segment were depressed, bidding was competitive which impacted margins.

The company has been working on improving the quality and delivery of steel castings, and with an increased activity in water projects, market value for valve and pump castings is expected to improve.

Engineering & projects (EPC segment) (76% of revenue)

Boilers

Boiler technology includes PC boilers, bagasse & biomass, oil & gas, atmospheric/bubbling fluidised bed combustion, circulating fluidised bed combustion boilers (CFBC), waste to energy, waste heat recovery.

Retrofits & Modernisations (R&M) – include capacity enhancement, multi-fuel conversion, technology upgrades (DG to TG, TG to AFBC), refurbishment of boilers field services – include feasibility study, RLA of boilers, efficiency enhancement, annual maintenance contract (AMC) and O&M training.

Chart 7: AFBC boiler

Chart 8: Oil & gas fired boiler

Source: Company, I-Sec research

- Due to the Zero Liquid Discharge policy of the government, increased demand for slop fired boilers continue.
- The company has also been executing straw fired boiler projects which control air pollution. These boilers have been manufactured with technology support from a European company.
- Increased demand for slop (highly polluting distillery effluent) fired boilers, which ensure zero liquid discharge for distilleries, has been witnessed.

Air pollution control equipment

- Air pollution control solutions include air filtration – electrostatic precipitators (ESP), air filtration (bag filters), denitrification (DeNOx) and FGD.
- The company won Rs13bn worth of orders from National Thermal Power Corporation (NTPC) for supply of wet flue gas desulphurisation for the removal of SOx. The order will be executed as per the technology provided by Babcock Power, USA.
- The company is L1 in two more projects of wet FGD and will be participating in NTPC lot 6.
- It also won its first semi-dry FGD order from an aluminium plant. Semi-dry FGD is for removal of SOx in plants where there is shortage of water and land.

- The NOx control secured in FY19 from an aluminium plant was successfully executed in FY20 with support from BHI FW, USA.
- Electrostatic precipitator (ESP) market continues to do well with technology from Envirotherm GmbH, Germany.

Chart 9: ESP, 180MW coal-based power plant for OPG Power, India

Chart 10: ESP, power plant for Bhubaneswar Power, India

Source: Company data, I-Sec research

Sugar plants & machinery and distilleries

- ISGEC completed the commissioning of two sugar plants having cogeneration plants of 27 MW in Uttar Pradesh.
- The division also secured an order for sugar and cogeneration plant in Haryana, two small sugar refineries in Uttar Pradesh,
- Orders for distilleries are expected to improve led by new bio-ethanol policy especially from large industrial groups like DCM Shriram, Dwarikesh Sugar, etc.
- The company continues with its plan to invest Rs1.6-1.7bn towards a distillery in Saraswati Sugar Mills.

Chart 11: Sugar plant with 15MW cogeneration for Kisan Sahkari Chini Mills, India

Chart 12: Distillery for DSCL

Source: Company Data, I-Sec research

Construction of power plants, factories and material-handling system

- In FY20, the division completed 4,000 TPH coal handling facility at a port, a diesel electric multiple unit railway facility and two power plants in the Philippines.
- It also secured orders for 1. civil work for a 564 MLD sewerage treatment plant; 2. zero liquid discharge for power plant in waste water treatment and 3. waste heat power plant from a major cement manufacturing company.

Subsidiaries and JV companies

Eagle Press & equipment

ISGEC had acquired 100% ownership in this Canada-based manufacturing company. The acquisition was done to expand the market for presses in North America by having a manufacturing base in Windsor (Canada) and service centre in Kentucky (USA). The erstwhile owners Tadeusz Polewski (President) and Mark Polewski (Chief Financial Officer) continue to work. The company intends to use Eagle's facility for stocking and marketing ISGEC made standard mechanical press and also the hydraulic press in North America.

FY20 revenues declined 23% YoY to CAD21.1mn as some of the equipments could not be dispatched due to the lockdown. The company booked losses of CAD4.2mn. Due to the impact of Covid-19 pandemic on auto and auto components industry, many orders in the pipeline have been deferred. However, as imports from Europe and China are expected to reduce due to Covid, Eagle Press may see increased demand due to its geographical advantage of manufacturing facilities in America.

The subsidiary took a loan of CAD1.5mn from ISGEC Heavy Engineering - India in FY20. The inter-company non-secured loan was borrowed at 7% interest.

Table 5: Eagle Press - Financials

CAD mn	FY19	FY20
Revenues	27.5	21.1
operating expense	26.5	25.3
EBITDA	1.0	-4.3
margin	3.7	-20.3
PBT	0.6	-5.5
Tax	0.0	-1.3
Tax rate	5.2	-
PAT	0.5	-4.2

Source: Company data, I-Sec research

Hitachi Zosen (subsidiary and JV company)

- FY20 revenues were low due to delay in dispatch of material due to Covid and Q2 will also be low as a lot of material was stuck in Mumbai port
- For FY20, Hitachi Zosen booked orders of Rs2.4bn and has an orderbook of Rs4.8bn
- Major orders executed in FY20 included
    - Order for Continuous Catalytic Regeneration (CRR) reactor
    - Order for Urea Reactor & Urea Stripper for Phase 2 project of Indorama Eleme Fertilizers & Chemicals Limited Nigeria.

- Order for Ammonia Unitized Chiller, Waste Heat Boiler and Steam Superheater for ammonia plant being by Hindustan Urvarak & Rasayan Limited (HURL) at Gorakhpur.
- Order for Urea Reactor and Stripper and HP Decomposer and LP Decomposer for Urea Plant of HURL.

Table 6: Hitachi Zosen - Financials

Rs mn	FY17	FY18	FY19	FY20
Revenue	3,573	4,419	2,249	2,889
PBT	193	331	32	111
Tax	66	118	12	42
PAT	127	213	20	70

Source: Company data, I-Sec research

Saraswati Sugar Mills

Revenue from operations was almost flat in FY20 despite low sugar production. Sugar prices were higher marginally due to increase in minimum sale price from Rs29 per kg to Rs31 per kg. The segment showcased an impressive performance in FY20 as its PBT zoomed 123% YoY to Rs334mn and recovery improved 30bps YoY at 11.8%. At 193,000 tonne production, Saraswati Mills' volume share in all India production improved 10bps at 0.7% in FY20.

Other income was also relatively higher in FY20 due to receipt of subsidy from central and state governments. Sugar recovery during the season was the highest ever at 11.79%. Total stoppages during the season were also less at 4.97% of the available hours against 5.24% in the preceding season.

Table 7: Saraswati Sugar Mills - Financials

Rs mn	FY16	FY17	FY18	FY19	FY20
Revenue	4,075	6,393	8,191	5,897	6,031
PBT	-154	908	711	150	334
PBT margin(%)	*-3.8*	*14.2*	*8.7*	*2.5*	*5.5*
Tax	-48	329	211	56	122
Tax Rate (%)	*30.9*	*36.2*	*29.7*	*37.3*	*36.7*
PAT	-106	579	499	94	211
All India Production of Sugar (Lac Tonnes)	284	251	203	325	332
All India Consumption of Sugar (Lac Tonnes)	250	248	240	250	255
Production of Sugar by Saraswati Sugar Mills (Lac Tonne)	1.56	1.37	1.65	2.03	1.91
Cane Crush by Saraswati Sugar Mills (Lac Tonnes)	14.4	11.9	14.5	17.7	16.6
Recovery(%)	11.0	11.6	11.4	11.5	11.5

Source: Company data, I-Sec research

'Special Resolution' from annual report

In order to comply with SEBI norms, an approval from board members will be required via a 'Special Resolution' if the aggregate remuneration payable to Mr. Aditya Puri (Managing Director) and Mrs. Nina Puri (Whole Time Director) exceeds 5% of the net profit…

Table 8: Remuneration to executive directors

(Rs mn)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Mr. Aditya Puri(Managing Director)						
Salary			6	6	6	6
Contribution to PF			1	1	1	1
Commission			135	84	122	114
Total			**143**	**92**	**129**	**121**
Mrs. Nina Puri (Whole Time Director)						
Salary			3	6	6	6
Contribution to PF			0	1	1	1
Other Perquisites			0	0	0	0
Commission			139	85	122	114
Total			**143**	**92**	**129**	**121**
Combined						
Salary	7	7	9	12	12	12
Contribution to PF	1	2	2	2	2	2
Commission	236	289	275	169	244	228
Total	**244**	**298**	**286**	**184**	**259**	**242**
% of PBT	***11.2%***	***10.5%***	***10.7%***	***10.9%***	***12.7%***	***11.7%***

Source: Company data, I-Sec research

…consequently, the company has implemented a cut in directors' remuneration by 75% and a 5-30% cut in the salary of white collar employees (> Rs800,000 per annum salary). This may reduce overall staff costs by ~15% for FY21.

Key highlights of the Philippine project

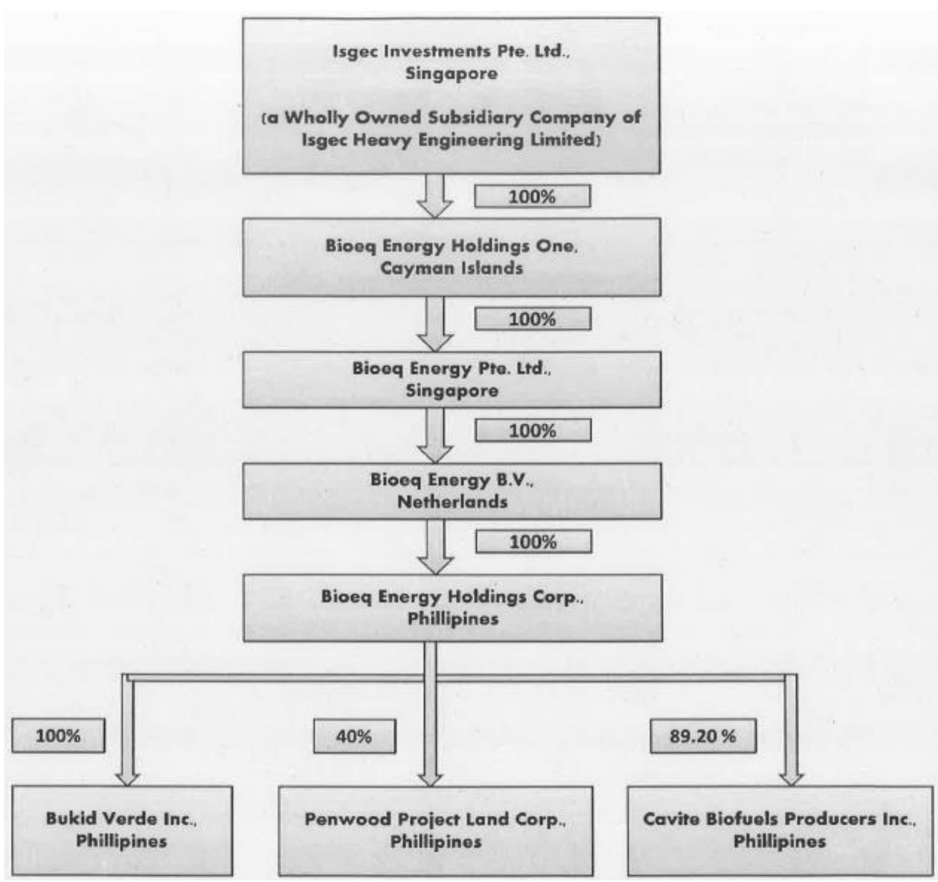
The background

- ISGEC was executing contracts to design, engineer, procure, construct commission and deliver a bio-refinery project in the Philippines. Due to manifestations of latent conditions leading to cost overrun and delay in completion of the project, ISGEC notified the customer (Cavite Biofuels Producers Ltd- CBPL) that these risks were to their account.
- CBPL had issued directions to continue with the project and started paying the additional cost to sub-contractors directly. The customer, however, on 30th Jan'18, invoked bank guarantees amounting to Rs1.34bn and wrongly terminated the contract, and also claimed damages.
- ISGEC had referred the dispute to arbitration under the Singapore International Arbitration Centre (SIAC), but settled it out of court.

The settlement

- As a part of the settlement, ISGEC through Isgec Investments Pte Ltd., Singapore, has acquired the holding company Bioeq Energy Holdings One, Cayman Islands. Cavite Biofuels Producers Inc, Philippines (CBPI) is a wholly-owned subsidiary of Bioeq Energy Holdings One.
- The acquisition of CBPI consists: (i) An under-construction fully integrated sugar mill, (ii) an ethanol plant, and (iii) a cogeneration facility.

Chart 9: Corporate structure after acquisition

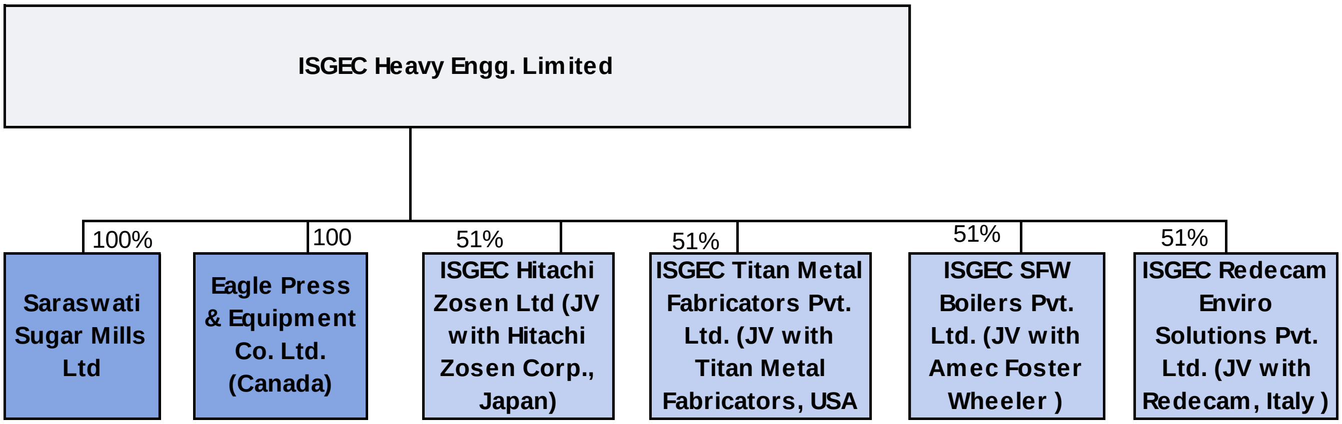


Source: Company Data, I-Sec research

- **The sugar mill is under construction** wherein total project cost is estimated at US$110mn-115mn. While 98% of material supply is complete, ~US$15mn of work is pending, most of which relates to the construction work,
- ISGEC's order for the turnkey project was US$60mn.
- The project had equity of US$73mn and debt of US$40mn at the commencement. The bought entity now has a debt of US$35mn.
- Total payment due to ISGEC from the seller is US$38mn; of this, ~US$20mn is due to invoking of bank guarantee and US$18mn is in terms of pending receivables.
- The sugar mill has **incidental cogeneration (cogen) facility**. A cogen is a technique used by large-scale steam users such as sugar mills, which allows simultaneous generation of two forms of energy – electrical power and steam from a primary fuel source. **The cogen, which the company has, does not completely meet the plant's power requirements; hence, some portion of the power requirement is imported.**
- **The bioethanol distillery plant** acquired has **130 kilolitres per day** (klpd) capacity and can use three feedstocks – sugarcane syrup, molasses and raw sugar.
- The recovery plant (RBU) can produce **70te CO_2 per day.** RBU's are designed to recover CO_2 from the fermentation processes at distilleries.
- Bukid Verde Inc., Philippines, which is also a stepdown subsidiary of Bioeq Energy Holdings One (BEHO), has leased **2,000 hectares** of land on long-term basis for cultivation of sugarcane for supply to CBPI.
- Penwood Project Land Corporation, which is 40% owned by the stepdown subsidiary of BEHO, owns land which has been leased on long-term basis to CBPI for establishing the sugar mill and ethanol plant. Total land is estimated to be **54 hectares** and is situated in the Philippines **free export zone**, which has **zero VAT.**

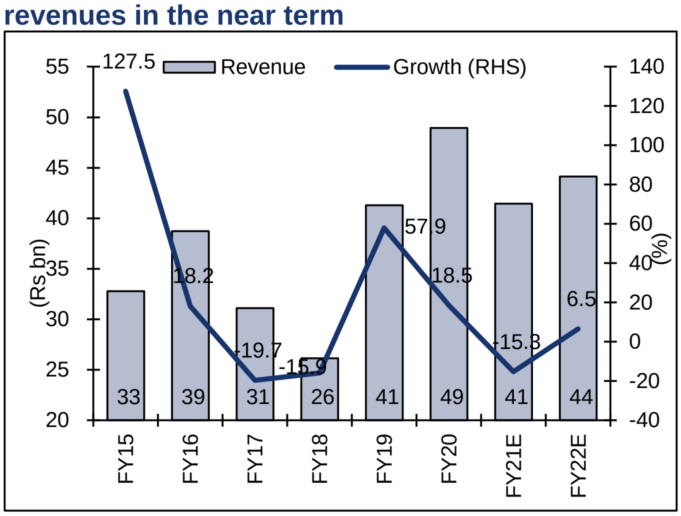
* ISGEC will have to spend on retaining its current manpower in the Philippines and ensuring the security of the facility there. Hence, consolidated margins are likely to get impacted by Rs100mn-120mn per annum.
* The plant has term loan of US$35mn and pending construction work worth ~US$15mn. ISGEC will have to either complete the pending work with an overseas loan or find a buyer ready to fund the required capex and recover the dues of ~US$38mn.
* Due to travel restrictions to Philippines, the plant sale plan has derailed by six months. Given the sale of the Philippines plant is unlikely to complete by Oct'20, it is no longer classified as "held for sale" and has been consolidated under subsidiaries. As of now, the company is currently not doing any capex. For term loan, the lender has extended repayment terms for two years and the next installment is in Jan'22.

Chart 13: Organisation structure of major wholly-owned subsidiaries and joint ventures



Source: Company, I-Sec research

Chart 14: New segments like FGD to support revenues in the near term



Source: Company, I-Sec research

Chart 15: EBITDA margin profile

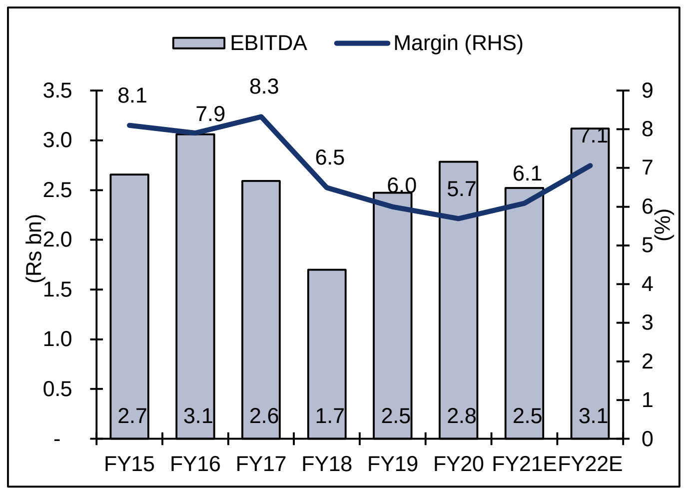
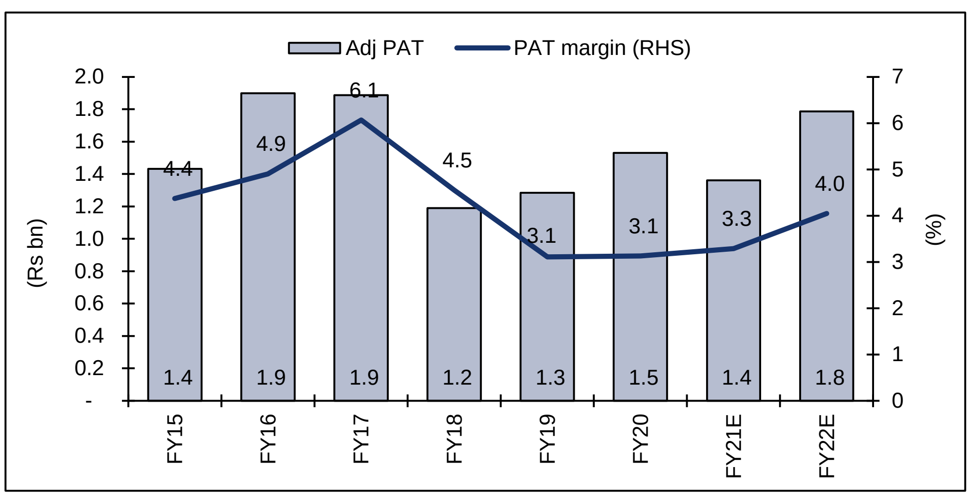


Chart 16: APAT CAGR of 8% for FY20-22E



Source: Company, I-Sec research

Chart 17: Global sales accounted 24% of FY20 standalone sales

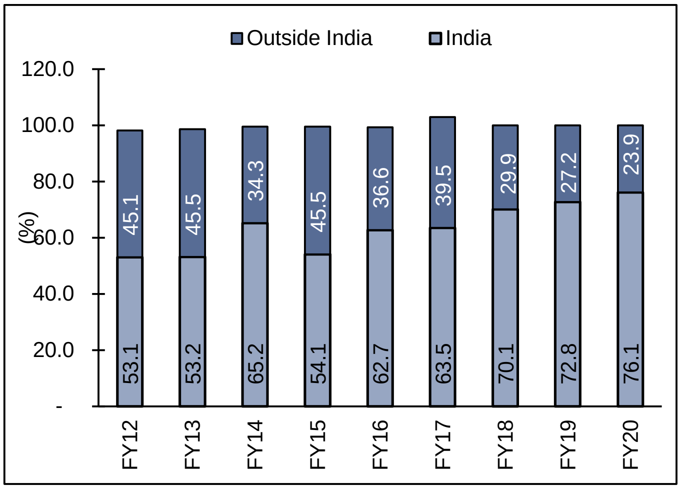
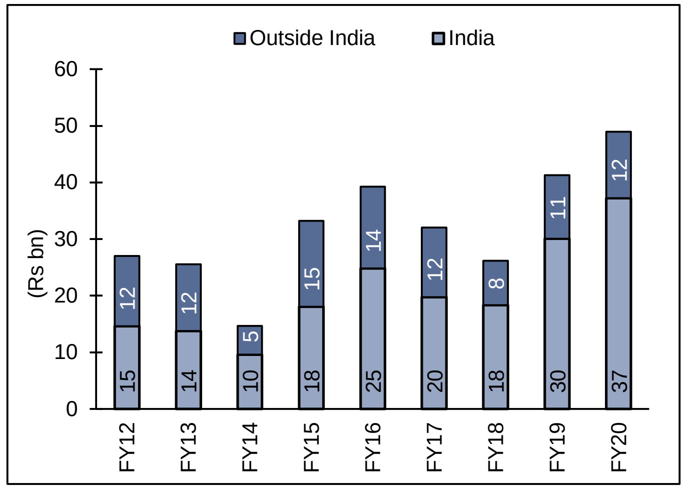


Chart 18: FY20 growth driven by 24% YoY increase in domestic sales



Source: Company, I-Sec research

Chart 19: Cost optimisation in variable costs supported EBITDA margins for FY20

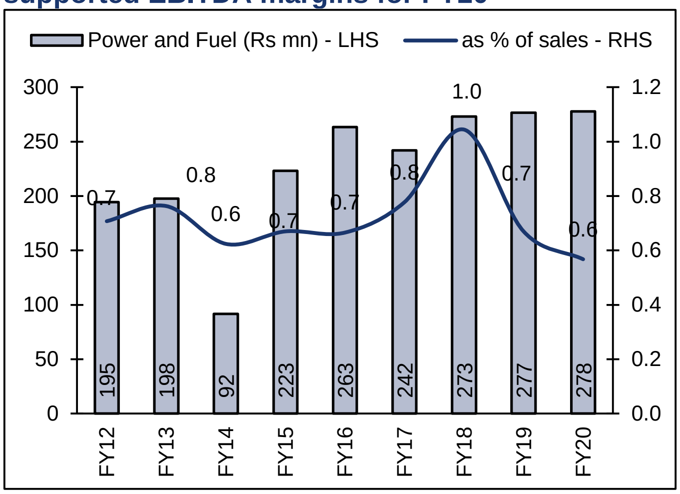
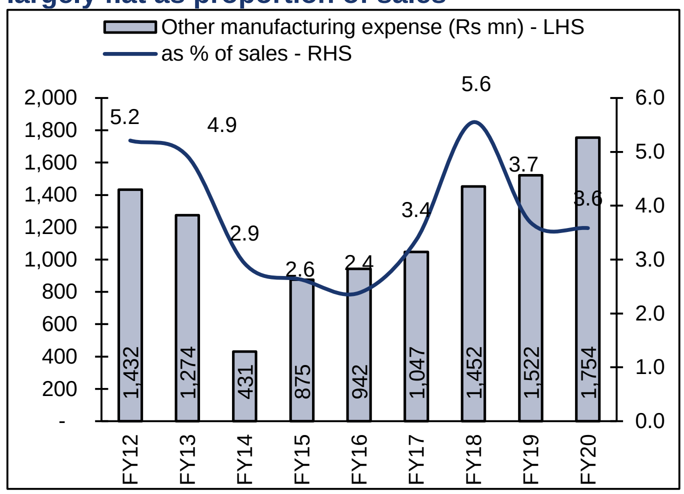


Chart 20: Other manufacturing expense stood largely flat as proportion of sales



Source: Company, I-Sec research

Chart 21: Packing and forwarding costs as % of sales declined 60bps YoY in FY20

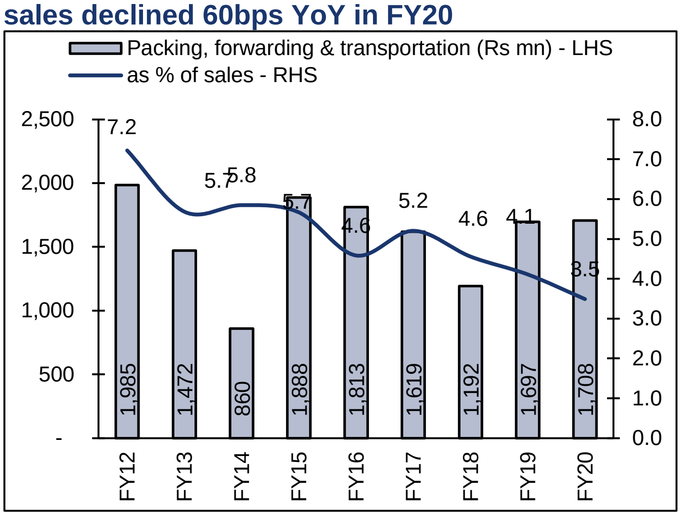
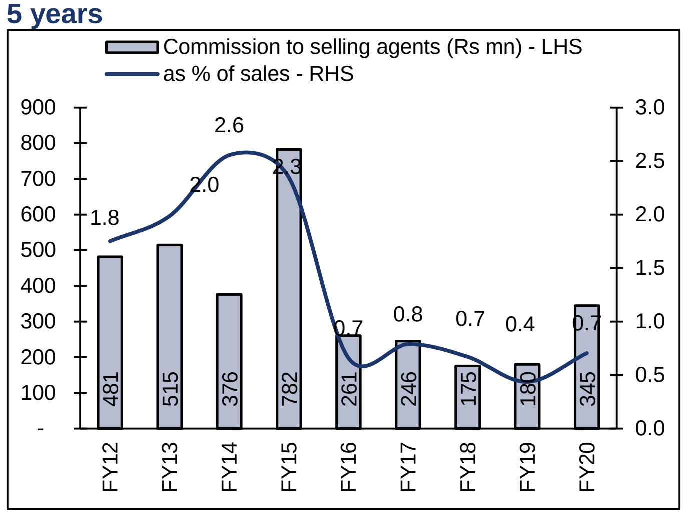


Chart 22: Stable commissions expense in the past 5 years



Source: Company, I-Sec research

Chart 23: Design and technical expense stood flat while lower royalty expense declined in FY20

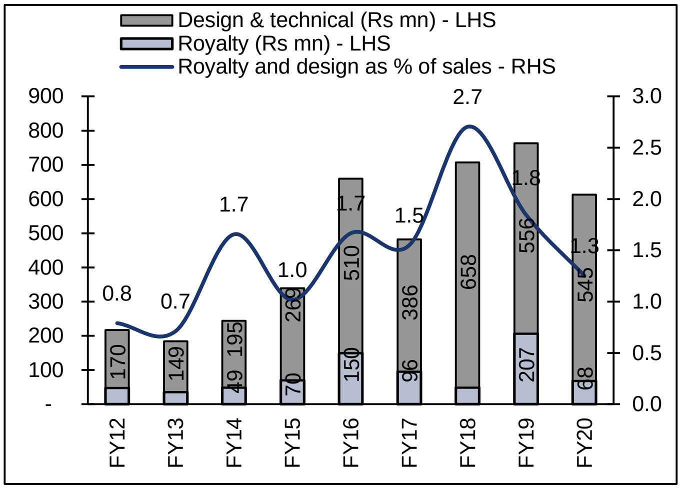
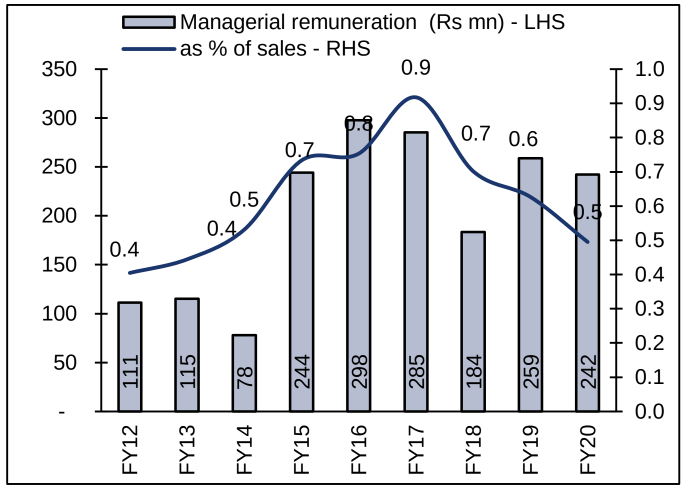


Chart 24: Cut in director's remuneration to reduce FY21 staff costs by ~15%



Source: Company, I-Sec research

Chart 25: Working capital trend

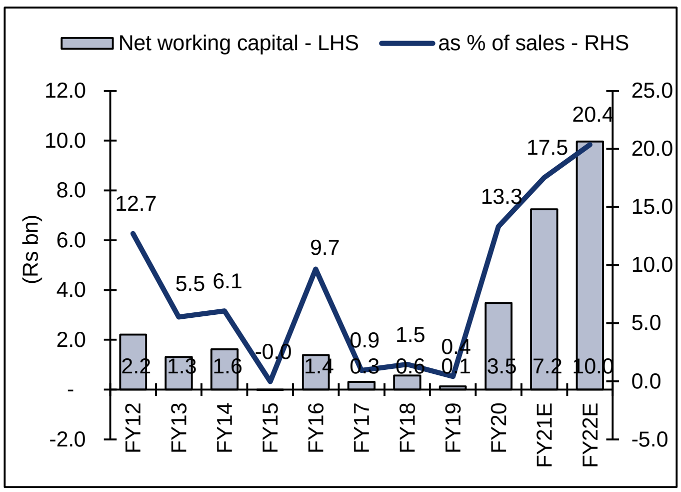
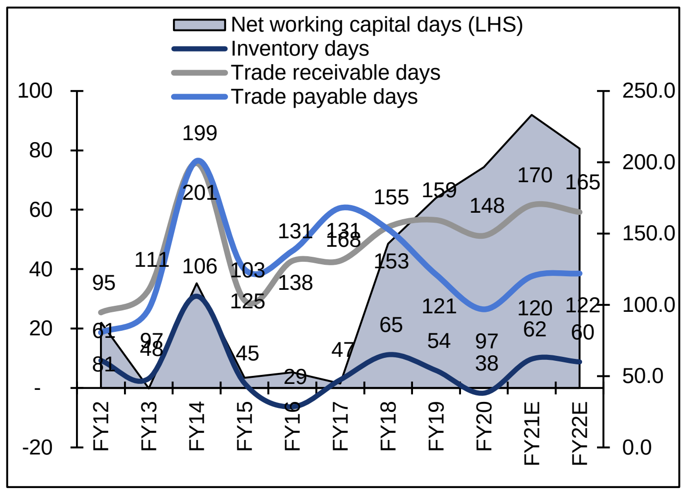


Chart 26: Working capital days



Source: Company, I-Sec research

Table 10: Financial assumptions

Rs mn	FY18	FY19	FY20	FY21E	FY22E
Segment Revenue					
Manufacturing of machinery & equipment	10,674	12,026	12,434	11,295	11,860
YoY Growth (%)		*12.7*	*3.4*	*-9.2*	*5.0*
Engineering, procurement and construction	17,205	32,214	38,974	32,582	34,863
YoY Growth (%)		*87.2*	*21.0*	*-16.4*	*7.0*
Total	**27,879**	**44,241**	**51,408**	**43,877**	**46,723**
EBIT					
Manufacturing of machinery & Equipment	1,294	1,317	904	1,017	1,186
Engineering, procurement & construction	628	1,166	1,504	1,140	1,569
Unallocated	397	75	-80	-88	-96
Total EBIT	**2,318**	**2,558**	**2,329**	**2,069**	**2,658**
EBIT margin (%)					
Manufacturing of machinery & Equipment	12.1	11.0	7.3	9.0	10.0
Engineering, procurement & construction	3.6	3.6	3.9	3.5	4.5
Total	**8.9**	**6.2**	**4.8**	**5.0**	**6.0**

Source: Company data, I-Sec research

Financial summary (standalone)

Table 11: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Income	**41,289**	**48,937**	**41,443**	**44,150**
Operating Expenses	38,815	46,152	38,921	41,032
EBITDA	**2,474**	**2,785**	**2,522**	**3,118**
% margins	*6.0*	*5.7*	*6.1*	*7.1*
Depreciation & Amortisation	659	737	703	714
EBIT	**1,815**	**2,048**	**1,819**	**2,404**
Gross Interest	153	159	167	175
Other Income	369	186	167	159
PBT before exceptionals	**2,031**	**2,075**	**1,819**	**2,387**
Add: Extraordinaries/ Exceptionals	-	-	-	-
Add: Share in associates	-	-	-	-
PBT	**2,031**	**2,075**	**1,819**	**2,387**
Less: Taxes	748	544	458	602
Less: Minority Interests	-	-	-	-
Net Income (Reported)	**1,283**	**1,531**	**1,361**	**1,786**
Adjusted Net Income	**1,283**	**1,531**	**1,361**	**1,786**

Source: Company data, I-Sec research

Table 12: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	34,945	35,880	37,273	41,000
of which cash & cash eqv.	2,475	2,176	2,435	4,734
Total Current Liabilities & Provisions	28,397	26,218	26,500	28,755
Net Current Assets	**4,073**	**7,487**	**8,338**	**7,511**
Investments	1,692	1,693	1,710	1,727
Other Non-Current Assets	791	1,497	1,523	1,550
Net Fixed Assets	**5,187**	**5,263**	**5,359**	**5,445**
Goodwill	-	-	-	-
Total Assets	**14,219**	**18,115**	**19,365**	**20,967**
Liabilities				
Borrowings	**747**	**3,410**	**3,410**	**3,410**
Deferred Tax Liability	**-**	**-**	**-**	**-**
Minority Interest	-	-	-	-
Equity Share Capital	**74**	**74**	**74**	**74**
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus	13,398	14,632	15,882	17,484
Net Worth	**13,472**	**14,705**	**15,956**	**17,558**
Total Liabilities	**14,219**	**18,115**	**19,365**	**20,967**

Source: Company data, I-Sec research

Table 13: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	**1,682**	**2,213**	**2,064**	**2,516**
Working Capital Changes	(3,757)	(2,729)	(471)	690
Capital Commitments	(999)	(813)	(800)	(800)
Free Cashflow	**(3,074)**	**(1,329)**	**793**	**2,406**
Cashflow from Investing Activities	**1,994**	**1,011**	**844**	**113**
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(76)	2,663	-	-
Interest paid	(153)	(159)	(167)	(175)
Dividend paid	(147)	(147)	(110)	(184)
Extraordinary Items/Others	**(1,800)**	**(2,339)**	**(1,100)**	**139**
Chg. in Cash & Bank balance	**(3,255)**	**(300)**	**260**	**2,299**

Source: Company data, I-Sec research

Table 14: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
Diluted adjusted EPS	17.5	20.8	18.5	24.3
Recurring Cash EPS	26.4	30.8	28.1	34.0
Dividend per share (DPS)	2.0	2.0	1.5	2.5
Book Value per share (BV)	183.2	200.0	217.0	238.8
Growth Ratios (%)				
Operating Income	57.9	18.5	(15.3)	6.5
EBITDA	45.7	12.5	(9.4)	23.6
Recurring Net Income	7.9	19.3	(11.1)	31.2
Diluted adjusted EPS	7.9	19.3	(11.1)	31.2
Diluted Recurring CEPS	4.4	16.8	(9.0)	21.1
Valuation Ratios				
P/E	14.7	12.3	13.8	10.5
P/CEPS	9.7	8.3	9.1	7.5
P/BV	1.4	1.3	1.2	1.1
EV / EBITDA	6.9	7.2	7.8	5.6
EV / Operating Income	0.4	0.4	0.5	0.4
EV / Op. FCF (pre -Capex)	(10.5)	(10.7)	12.4	5.5
Operating Ratios				
Raw Material/Sales (%)	69.3	72.8	71.0	70.0
SG&A/Sales (%)	17.6	15.1	16.1	15.9
Other Income / PBT (%)	18.2	9.0	9.2	6.7
Effective Tax Rate (%)	36.8	26.2	25.2	25.2
NWC / Total Assets (%)	17.0	22.5	22.8	19.6
Inventory Turnover (days)	54.0	38.1	62.0	60.0
Receivables (days)	159.5	148.5	170.0	165.0
Payables (days)	121.3	96.9	120.0	122.0
Net D/E Ratio (x)	(0.1)	0.1	0.1	(0.1)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	3.1	3.1	3.3	4.0
RoCE	10.1	10.2	7.9	9.5
RoNW	10.0	10.9	8.9	10.7
Dividend Payout Ratio	11.5	9.6	8.1	10.3
Dividend Yield (%)	0.8	0.8	0.6	1.0
EBITDA Margins	6.0	5.7	6.1	7.1

Source: Company data, I-Sec research

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