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India | Equity research | Q1FY24 result review

ISGEC Heavy Engineering

Capital Goods

Manufacturing led to good quarter, maintain BUY

ISGEC Heavy Engineering (ISGEC) reported a good set of numbers for Q1FY24 with standalone revenue/EBITDA/PAT up 14%/35%/112% YoY to INR 11.3bn / 766mn / 637mn respectively. Performance was aided by growth in the manufacturing business of the company. Current orderbook stands at INR 84bn, +9% YoY. Enquiry pipeline remains robust in both domestic and international product-segments. Key sectors witnessing traction are: power, sugar, steel, cement, and ethanol. NWC situation is likely to improve with execution of FGD orders. Execution of biofuel plant in Cavite, Philippines, is on track and likely to start commercial operations by Nov'23. Management indicated strong business outlook for its subsidiaries. Maintain **BUY** with a revised SoTP-based target price of **INR 880** (earlier: INR 698).

Execution improves across segments

Both manufacturing and EPC revenue grew ~14% YoY to INR 3.4bn / 8.4bn led by strong existing order backlog and pickup in execution. EBIT margin in manufacturing was up 770bps YoY to 11.7% on account of favourable mix and lower raw material prices. EPC EBIT margin declined 120bps YoY to 3.9%. This led to 110bps YoY expansion in EBITDA margin at 6.8%. We expect gradual improvement in profitability to 6.9% / 7.1% for FY24E / FY25E.

Positive outlook for subsidiaries

Consolidated revenue/EBITDA in Q1FY24 grew ~11% / 44% / 181% YoY to INR 13.9bn / 1.1bn / 507mn, respectively. This was led mainly by improved performance of the standalone business and Saraswati Sugar Mills. Management indicated a strong enquiry pipeline for all the subsidiaries. Cavite Biofuels' ethanol operations are likely to see commercial operations start by Nov'23 and deliver INR 5bn revenue with EBITDA margin of 30% on a full-year basis.

Maintain BUY with TP of INR 880

With an improving order inflow and better margins led by better job mix, we expect execution to pick up along with gradual improvement in profitability. Management guidance of double-digit revenue growth has also been factored into our estimates. We have revised our earnings estimates by ~8% for FY24E/FY25E.

Financial summary

Y/E Mar-31 (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	44,445	46,519	53,861	61,940
EBITDA	2,091	2,995	3,720	4,393
EBITDA Margin (%)	4.7	6.4	6.9	7.1
Net Profit	1,128	1,779	2,339	2,845
EPS (Rs)	-	-	-	-
EPS % Chg YoY	(48.3)	57.7	31.5	21.6
P/E (x)	49.2	31.2	23.7	19.5
EV/EBITDA (x)	27.6	19.4	15.7	13.2
RoCE (%)	5.4	7.8	9.3	10.0
RoE (%)	6.5	9.5	11.4	12.4

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Market Data

Market Cap (INR)	56bn
Market Cap (USD)	668mn
Bloomberg Code	IGSEC IN
Reuters Code	ISGE.BO
52-week Range (INR)	765 / 418
Free Float (%)	37.0
ADTV-3M (mn) (USD)	1.4

Price Performance (%)	3m	6m	12m
Absolute	52.1	63.3	68.3
Relative to Sensex	5.8	7.7	11.4

ESG Disclosure	2021	2022	Change
ESG score	26.2	45.3	19.0
Environment	0.9	21.6	20.7
Social	14.1	38.0	23.9
Governance	63.6	76.1	12.5

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	1.1	1.1
EBITDA	4.1	2.8
EPS	8.4	7.9

Previous Reports

31-05-2023: [Q4FY23 results review](#)

15-02-2023: [Q3FY23 results review](#)

Concall highlights

- Total ethanol production for FY24 is expected to be 38mn litres.
- Profitability improved in Q1Y24 thanks to the manufacturing segment and because of dividends received by subsidiaries.
- In the subsidiary sugar mill, ethanol plant's capacity has been expanded from 100klpd to 160klpd, and the expanded capacity has been operational since 18th Jun'23. This enhanced capacity enables the plant to produce more ethanol during the sugar season, resulting in fuel cost savings during the offseason.
- Order inflow traction increasing in the following sectors – automobiles, sugar, cement and steel. A slight slowdown was witnessed in refineries segment.
- Total consolidated debt stands at INR 11.2bn, of which INR 3.9bn is related to the Philippines plant.

Philippines project

- The construction at the Cavite Biofuels' ethanol plant in the Philippines is progressing well. However, intensive rains over last few months have hampered the speed of work.
- The plant will be completed and will have a test run for production of ethanol from molasses in Sep'23, with commercial production starting in Nov'23.
- Annual revenue is expected in the range of INR 5bn-5.5bn. Revenue generation is expected to start from Jan'24.
- Full capacity utilisation is expected by Q4FY24.
- EBITDA margin for the plant is expected at ~30%.

EPC

- EPC segment margin expansion can take place from FY25.
 - However, revenue from the segment is expected to grow in FY24.

FGD

- Two large FGD projects are expected to be completed this year.
- Company expects release of ~INR 4bn of working capital once FGD projects are completed, which is expected by Q4FY24.
- Typical execution period of an FGD period is ~24 months.

Hitachi Zosen

- Orderbook for the JV stands at ~INR 6.9bn, of which INR 4.85bn is comprised of export orders.
- Margins were affected last year due to a sudden increase in raw material prices.
- Margins are expected to be better this year. Orderbook stands at INR 6.9bn, of which INR 4.8bn consists of export orders; export revenue is thus going to be higher this year.

Outlook and valuation

We marginally tweak the earnings for the company and value the standalone business at INR 774 (20x FY25E earnings), ISGEC Hitachi Zosen at INR 9 (13x FY25E earnings) and Saraswati Sugar Mills at INR 97 (8x FY25E earnings), arriving at a revised SoTP-based target price of **INR 880** (previously: INR 698). Maintain **BUY**.

Key risks: i) Further commodity price escalation (which might impact execution and margins), ii) higher-than-expected losses or any delays in commissioning of the Philippines plant.

Exhibit 1: SoTP valuation

	Method	PE Multiple	FY25E earnings	Value (INR mn)	Holding (%)	Holding Value (INR mn)	Per Share (INR)
Standalone	FY25E PER(x)	20	2,845	56,938	100	56,938	774
Saraswati sugar	FY25E PER(x)	8	887	7,099	100	7,099	97
ISGEC Hitachi Zosen	FY25E PER(x)	13	97	1,262	51	643	9
Total						64,681	880

Source: I-Sec research

Exhibit 2: Earnings revision (standalone)

INR mn	FY24E			FY25E		
	Previous	Revised	% chg	Previous	Revised	% chg
Revenues	53,279	53,861	1.1	61,271	61,940	1.1
EBITDA	3,573	3,720	4.1	4,273	4,393	2.8
PAT	2,157	2,339	8.4	2,637	2,845	7.9

Source: I-Sec research

Exhibit 3: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	62.4	62.4	62.4
Institutional investors	10.0	10.3	10.9
MFs and others	6.8	7.3	7.7
FIs/Banks	0.0	0.0	0.0
Insurance	0.1	0.1	0.0
FIIIs	3.1	2.9	3.2
Others	27.6	27.3	26.6

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial summary

Exhibit 5: Profit & Loss

(INR mn, year ending Mar-31)

	FY22A	FY23A	FY24E	FY25E
Net Sales	44,445	46,519	53,861	61,940
Operating Expenses	42,354	43,524	50,140	57,546
EBITDA	2,091	2,995	3,720	4,393
EBITDA Margin (%)	4.7	6.4	6.9	7.1
Depreciation & Amortization	654	631	627	624
EBIT	1,437	2,364	3,093	3,769
Interest expenditure	227	370	397	439
Other Non-operating Income	-	-	-	-
Recurring PBT	1,471	2,344	3,081	3,804
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	342	565	742	959
PAT	1,128	1,779	2,339	2,845
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,128	1,779	2,339	2,845
Net Income (Adjusted)	1,128	1,779	2,339	2,845

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending Mar-31)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	38,250	44,521	51,516	59,659
of which cash & cash eqv.	782	1,362	1,655	2,319
Total Current Liabilities & Provisions	-	-	-	-
Net Current Assets	38,250	44,521	51,516	59,659
Investments	1,416	471	471	471
Net Fixed Assets	4,830	4,752	4,724	4,700
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	917	1,127	1,127	1,127
Other assets	2,879	1,538	1,554	1,569
Deferred Tax assets	-	-	-	-
Total Assets	49,209	53,536	60,575	68,769
Liabilities				
Borrowings	4,337	4,468	4,968	5,468
Deferred Tax Liability	-	-	-	-
provisions	470	761	881	1,013
other Liabilities	26,571	28,850	33,151	38,088
Equity Share Capital	74	74	74	74
Reserves & Surplus	17,759	19,384	21,502	24,127
Total Net Worth	17,832	19,457	21,576	24,201
Minority Interest	-	-	-	-
Total Liabilities	49,209	53,536	60,575	68,769

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending Mar-31)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	(406)	(450)	321	612
Working Capital Changes	(2,065)	(2,804)	(2,657)	(2,823)
Capital Commitments	(1,822)	258	(656)	(659)
Free Cashflow	1,417	(708)	978	1,271
Other investing cashflow	(105)	1,481	370	458
Cashflow from Investing Activities	(1,927)	1,739	(287)	(201)
Issue of Share Capital	0	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(221)	(221)	(221)	(221)
Others	2,879	(1,510)	478	474
Cash flow from Financing Activities	2,658	(1,730)	258	254
Chg. in Cash & Bank balance	326	(441)	293	664
Closing cash & balance	1,970	1,528	1,821	2,485

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending Mar-31)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	15.3	24.2	31.8	38.7
Adjusted EPS (Diluted)	-	-	-	-
Cash EPS	24.2	32.8	40.4	47.2
Dividend per share (DPS)	3.0	3.0	3.0	3.0
Book Value per share (BV)	242.6	264.7	293.5	329.3
Dividend Payout (%)	19.5	12.4	9.4	7.7
Growth (%)				
Net Sales	3.1	4.7	15.8	15.0
EBITDA	(38.4)	43.3	24.2	18.1
EPS (INR)	(48.3)	57.7	31.5	21.6
Valuation Ratios (x)				
P/E	49.2	31.2	23.7	19.5
P/CEPS	31.1	23.0	18.7	16.0
P/BV	3.1	2.9	2.6	2.3
EV / EBITDA	27.6	19.4	15.7	13.2
P / Sales	1.2	1.2	1.0	0.9
Dividend Yield (%)	0.4	0.4	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	100.0	100.0	100.0	100.0
EBITDA Margins (%)	4.7	6.4	6.9	7.1
Effective Tax Rate (%)	23.3	24.1	24.1	25.2
Net Profit Margins (%)	2.5	3.8	4.3	4.6
NWC / Total Assets (%)	0.1	0.1	0.1	0.1
Net Debt / Equity (x)	0.1	0.1	0.1	0.1
Net Debt / EBITDA (x)	1.0	0.9	0.8	0.6
Profitability Ratios				
RoCE (%)	5.4	7.8	9.3	10.0
RoE (%)	6.5	9.5	11.4	12.4
RoIC (%)	5.4	7.8	9.3	10.0
Fixed Asset Turnover (x)	9.1	9.7	11.4	13.1
Inventory Turnover Days	46	51	53	53
Receivables Days	190	224	229	229
Payables Days	-	-	-	-

Source Company data, I-Sec research

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