

ISGEC Heavy Engineering (ISGEC)

BSE Code: 533033

CMP : ₹6160

Face Value : ₹10

Target price: ₹9240

HP* : Two years

About the company

Our Pearl Pick for the month of August is ISGEC Heavy Engineering Limited. The business verticals of the company are process equipment, EPC projects, boilers, sugar plants and machinery, presses, steel and iron casting, air pollution control equipment, contract manufacturing and liquid gas container. With such diversified businesses, it caters to various industries such as power, fertiliser, steel, oil & gas, cement, defence, automobiles, sugar and chemicals. The company serves engineering products to almost 87 countries.

Why to invest

Recent order win from NTPC would benefit the company : The company has recently been the lowest bidder in a reverse auction for a flue gas desulphurisation (FGD) systems order from NTPC. The value of the order is around Rs 700 crore. The Central Pollution Control Board (CPCB) has revised emission norms in 2017 making power developers to mandatorily install FGD (flue gas desulphurization) and other emission control equipment by 2022. FGD is one of the most expensive retrofits of all pollution control systems in a power plant. So, this order win would drive the revenue growth in the near term.

EPC projects and diversification would drive growth : The company offers various types of power plants, including captive power plant, co-generation power plant, waste heat based power plant, independent power plant, etc. under the EPC division. The company has already commissioned power plants of 1036 MW and the plant of 365 MW with maximum unit size of 35 MW is under the execution stage. Under EPC division, besides domestic projects, the company has successfully completed a project in South-East Asia and has also bagged repeat orders for two similar power plant projects from the same business group. Further, its diversification into material handling projects has led to secure large value orders like material handling at ports and delivering coal from mines to power plants. The management expects this business to perform well in the coming years.

Process equipment on development trajectory : The division continued to have a decent order booking during FY18 led by the fuel quality upgradation projects being undertaken by all oil refineries in India and petrochemical and the new super critical thermal power projects. Also, the oil refineries are investing heavily to meet Euro-VI emission norms which would further drive revenue growth. The total export orders comprise of 22 per cent of the total order book. Also, going ahead, the government's focus on setting up 12 nuclear power reactors would open the doors for new opportunities for the company.

Well-positioned sugar plant & machinery business : The company is a market leader in sugar plants with better project execution capabilities. Also, it has successfully commissioned its first sugar refinery in Indonesia. Also, another large sugar refinery is currently under execution in Saudi Arabia. This would help the company to secure business from the Gulf nations and European countries. Also, the company continued to get new orders for distilleries and

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* HP : Holding Period

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currently several projects are under execution.

Other business verticals to perform well : The company's boiler division enjoys an overall market share of around 52 per cent in its operational area. It has booked breakthrough orders during FY18 and planned to execute the orders within reduced time frames, which would result in repeat orders from many customers.

Its presses and contract manufacturing business is enjoying healthy order book on the export front and it is also likely to secure orders from Europe, North America and South Asia.

Healthy order book : For FY18, the total order book stood at Rs 4312 crore and as on March 31, 2018, the orders in hand stood at Rs 5574 crore. This healthy order book provides significant revenue visibility in the coming years. The orders in hand comprises of manufactured projects-Rs. 901 crore and projects – Rs. 4798 crore.

Investing in the stock

The company has a share capital of Rs 7.35 crore, with promoters' holdings at 62.27 per cent. Therefore, the available free float comes to 0.28 crore shares. The two-week average traded quantity comes to around 1707 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given below.

Price	Accumulation
5800-6000	30 per cent
5600-5800	25 per cent
5400-5600	25 per cent
<5400	20 per cent

Financial performance

During Q1FY19, the standalone revenue came in at Rs 714.19 crore, registering an increase of 44.4 per cent YoY. The EBITDA for the quarter rose by 124.9 per cent YoY to Rs. 56.55 crore, with a corresponding margin expansion of 283 bps. The EBITDA margin for the quarter stood at 7.9 per cent. The PAT for the quarter came in at Rs 30.95 crore as against Rs 16.92 crore in the corresponding quarter last year, a jump of 82.9 per cent.

Valuation and outlook

The company is trading at a TTM P/E of 34.2x with TTM EPS of Rs. 180.89. Going ahead, revised pollution norms and rising demand from various sectors like sugar, fertilisers and cement would augur well for the company. Also, the company's well-diversified business model would further drive the growth as it has secured healthy amount of orders from different business areas. Also, the company is currently under-utilised, leaving huge scope for growth in the coming years which would boost the profitability. However, we expect the upcoming quarters to be slightly volatile as company follows percentage of completion as its accounting method. Considering all these aspects, we see an upside of 50 per cent with a target price of Rs 9240 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	2599.82	3031.54	3872.89	3277.42	1440.44
Total Income	2672.16	3124.77	3933.88	3319.74	1463.83
Total Expenditure	2419.10	2759.65	3555.97	2996.97	1346.42
PBITD	253.06	365.12	377.91	322.77	117.41
PAT	118.98	188.63	189.92	143.19	46.25
Dividend %	160.00	300.00	200.00	200.00	70.00
Adj. EPS(Rs)	161.81	256.54	258.30	194.74	62.90

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Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	714.19	818.87	-12.78	494.44	44.44
Total Expenditure	657.64	771.08	-14.71	469.30	40.13
PBIDT (Excl OI)	56.55	47.79	18.33	25.14	124.94
PAT	30.95	26.62	16.27	16.92	82.92
PBIDTM% (Excl OI)	7.92	5.84	35.62	5.08	55.91
PBIDTM%	8.94	6.99	27.90	8.71	2.64
PATM%	4.33	3.25	33.23	3.42	26.61
Adj. EPS(Rs)	42.11	36.22	16.26	23.02	82.93


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