

**ISGEC Heavy Engineering Ltd.**

**Price Target : Rs. 477**

**Company Details**

CMP	359.00
Face Value	1.00
Market Cap (Cr)	2637.50
EPS ( TTM )	23.33
52 Week High	622.00
52 Week Low	306.05
BSE Code	533033
Sector	Industrial Machinery

**Company Background**

**ISGEC Heavy Engineering Ltd**, a multi-product company established in 1933 and has been providing engineering solutions to customers across 91 countries around the world for the past 86 years.

The Company produces and sells heavy engineering equipment, mechanical, and hydraulic presses and castings primarily in India and global markets. It also engages in the construction and erection of boilers, sugar plant and machinery, and related equipment, as well as produces and sells sugar.

The company is having four joint ventures in Japan , USA and Italy, and three subsidiaries in Canada, USA and India. The company operates from 6 state-of-the art manufacturing facilities including a coastal plant at Dahej.

**YOY - Financial Highlights [INR – Crore]**

Description	Mar-19	Mar-18	Var %
Net Sales	5050.66	3825.86	32.01
Total Expenditure	4866.93	3609.92	34.82
PBIDT	183.73	215.94	-14.92
Operating Profit	252.49	273.22	-7.59
OPM (%)	6.63	9.33	-28.94
PBT	226.94	251.06	-9.61
Profit After Tax	144.02	168.41	-14.48
EPS	19.42	21.39	-9.21
Equity Capital	7.35	7.35	-

**Business Segments**



**Financial Performance**

The Net sales of the company at Rs 5050.66 Cr for the year ended Mar19 were up by 32% compared to those for the previous year but profit after tax at Rs 144.02 Cr was lower by 14.48% due to unexpected surge in the steel prices.

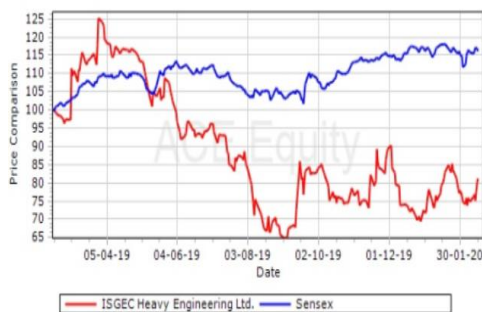
For the 9MFY20 the Net Sales and PAT of the company at Rs 4310.35 Cr & Rs 137.4 Cr, are higher by 24.5 % & 30.4% respectively over those for the corresponding period in the previous financial year.

**Investment Rationale**

- ❖ The company has recently acquired Eagle Press & Equipment Co. Ltd to expand the market for Presses in North America. This will benefit the company in the coming quarters onwards.
- ❖ The company has successfully diversified its product segment by entering into the business of construction of factories for railways, material handling systems and air pollution control projects. This move is expected to enable the company to source large value orders from this segment.
- ❖ The company is participating in various industrial exhibitions and conferences in India and overseas to explore export avenues . The company is poised for an ever higher export turnover in the coming quarters.
- ❖ The export turnover of the company for FY19 was at Rs 1124 crores against Rs 782 crores for the previous year.
- ❖ In the view of The Government of India's bio-ethanol policy for the ethanol sector, the company is expecting good business for distillery plants.
- ❖ Emission-level reforms from government of India to drive demand for high-efficiency boilers like CFBC boilers, HRSG, Rice Straw boiler and SLOP boilers, will enhance the revenue of the company from the boiler business.
- ❖ There are more opportunities in Air pollution control solution segment as new environmental norms from MoEFCC for thermal power plants and requisite emission control equipment to be installed by Dec'22 this will augur well for the company.

**9M - Financial Highlights [INR – Crore]**

Description	Dec-19	Dec-18	Var %
Net Sales	4310.35	3461.50	24.52
Total Expenditure	4134.34	3331.68	24.09
PBIDT	176.01	129.82	35.58
Operating Profit	219.31	183.77	19.34
OPM (%)	6.59	7.53	-12.48
PBT	192.40	165.17	16.49
Profit After Tax	137.36	105.33	30.41
EPS	17.97	14.05	27.90
Equity Capital	7.35	7.35	-



- ❖ The **order book position of the company as on 30<sup>th</sup>sep 2019 is about Rs. 13,744 crores** which is all time high, further the company is expected to have higher order flow and revenue in coming quarters. This will provide visibility to the revenues of the company in the coming years.
- ❖ The company has **expanded the production capacity of liquefied gas containers by 30%** due to increased in demand. Due to boom in Chor alkali industry in south east Asia , the company is expecting more volume from this business.
- ❖ The company has continuously paid dividend since FY09. For FY20 the **company has declared an interim dividend of Rs. 2** on FV of Rs. 1 per share. **The Record Date has been fixed as February 25, 2020** for the purpose of payment of Dividend.
- ❖ The company has given last bonus in the ratio of 1:1 in Jan 1991 and split of the share from Rs. 10 to Rs. 1 on March 28,2019.
- ❖ The Book value of the share is Rs. 215.81 and it is trading at Price to Book value of 1.70x and the Debt to Equity ratio of the company is 0.20x.

### Shareholding Pattern

The Promoters of the company hold 62.3% equity shares of the company while Mutual Funds holds 10.5%, FIIs holds 1.9%, Other DIIs hold 0.04% and the balance 25.3% shares are held by public.

### Concern

The fluctuation in commodity prices, slowdown in economy and competition from peers are some of the main concerns.

### Valuation

**The share of the company in our view is undervalued and appears to be a good buy for decent appreciation for long term .**

**The share of the company is trading at TTM PE of 15.8x. Keeping in view the positive outlook for the company, strong order flow and future growth momentum in all businesses segments, we estimate the company to report EPS of about Rs.26.5 for FY20 and based on PE of 18x we see price of scrip to move up to Rs 477 in the next 12 months ( 33 % appreciation ) .**

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