

ISGEC Heavy Engineering Limited

Instrument	Amount Rated In Rs. Crore	Rating Action As of September, 2016
Unallocated	492.16	[ICRA]AA(Stable); <i>assigned</i>
Unallocated	7.84	[ICRA]AA(Stable); <i>outstanding</i>
Total Unallocated	500.0	
Fund based	300.0	[ICRA]AA(Stable); <i>outstanding</i>
Total fund based	300.0	
Non fund based	98.90	[ICRA]AA(Stable); <i>outstanding</i>
Non fund based	2401.10	[ICRA]A1+; <i>outstanding</i>
Total non fund based limits	2500.00	
Total	3300.00	

ICRA has assigned a long term rating of [ICRA]AA(pronounced ICRA double A)¹ to Rs 492.16 crore unallocated limits of ISGEC Heavy Engineering Ltd (IHEL). ICRA has outstanding rating of [ICRA]AA on the long term scale for Rs 300.0 crore² bank limits and Rs 7.84 crore unallocated limits of IHEL. ICRA also has an outstanding rating of [ICRA]A1+(pronounced ICRA A one plus) on the short term scale for Rs 2401.10 crore non fund based limits of IHEL. The long term rating carries a Stable outlook.

The rating action positively factors in the track record of promoters and established position of IHEL as an EPC/fabricator for various equipments/machinery in the capital goods sector both in India and in the overseas markets. The ratings also factor in the stability in operations which arises due to the defensible market position of IHEL, especially in India, in a number of divisions such as boilers, presses and process equipment aided by long term technical tie ups/alliances with a number of recognized global heavy engineering companies as well as IHEL's in-house design and manufacturing capability. The strong market position enables IHEL to keep its working capital requirements negligible given they receive adequate customer advances and have a shorter receivables cycle. Further, ICRA acknowledges the prudent risk management techniques followed by IHEL such as hedging of entire forex exposure (forex risk), back to back arrangement with vendors as well as satisfactory assessment of various other risks such as political, environmental, commercial, legal etc. before taking up a project. Apart from this, the rating reaffirmation factors in the strong diversification of IHEL's revenue stream across a number of end markets, geographies and clients and a strong order book which offers revenue visibility in the medium term. The strong business position is reflected in the robust financial profile. IHEL has a negative net debt position, interest coverage ratio of 15.0x and NCA/total debt of 70% in FY15 apart from unutilized bank lines. IHEL's short term liquidity is supported by more than Rs 700 crore of liquid investments and cash and bank on top of a negative working capital requirement.

Nevertheless, the assigned ratings continue to factor in the competitive pressures from other engineering equipment manufacturers and vulnerability of the company's revenues to cyclical trends in some consuming industries, which may affect future order inflows. The assigned ratings also take into consideration the business risks arising out of company's exposure to raw material price fluctuations for the products manufactured in-house, though ICRA notes that the percentage of the same in overall mix is low. Further, the profitability of Saraswati Sugar Mill Ltd, a 100% subsidiary of IHEL which is into sugar manufacturing, is likely to remain exposed to cyclicity in the sugar industry, necessitating financial support from the parent entity in downturns

About the Company

ISGEC Heavy Engineering Limited (formerly Saraswati Industrial Syndicate Limited), a public company under the ISGEC Group, is engaged in the manufacturing of Heavy Engineering equipments and providing related EPC/ Turnkey services. Its product portfolio comprises Pressure Vessels, Heat Exchangers, Mechanical and Hydraulic presses, Iron and Alloy Steel Castings, Boilers, Power Plant, Sugar machinery and Air pollution control equipments. The company was established in 1946 by the Puri family. Their initial business activity was

¹ For complete rating and definitions please refer to ICRA's website www.icra.in or any of the ICRA Rating Publication

² 100 lakh=1 crore= 10 million



manufacturing of spares for sugar mills to complement its sugar mills operations. In the course of its history, the company diversified into a range of engineering products, and in 1964 it established a joint venture with John Thompson of the UK to form "ISGEC JOHN THOMPSON" to manufacture boilers. In 1981, it acquired majority shares in UP STEELS. Both these companies were subsequently amalgamated into ISGEC Heavy Engineering Limited.

The company also has technical collaborations with Foster Wheeler of USA for technology related to manufacturing of CFBC Boilers upto 99.9 MW and for Pulverized Coal Fired Subcritical (60 MW to 1000 MW) and Supercritical (550 MW to 1000 MW) Boilers. During FY 2011-12, IHEL completed a capacity expansion for manufacturing of pressure parts required for Boilers.

IHEL incorporated a Joint Venture 'ISGEC Hitachi Zosen Limited' along with Hitachi Zosen Corporation, Japan in March 2012. The JV is engaged in the manufacturing of specialized & critical process equipments and caters to the requirements of oil refining, fertilizer & petrochemical industries.

The company bought technical drawings and the brand Morando for manufacturing of Vertical Turning Lathes (VTL) during FY 2011-12. IHEL also acquired the technology to manufacture Electrostatic Precipitators (ESP) from Envirotherm GmbH, Germany, and signed technology agreements with M/s Belleli, Italy for the manufacturing of Breech Lock Exchangers and with Foster Wheeler, USA for the supply of design for Feed Water Heaters and Surface Condensers in the same financial year.

During FY 2012-13, the company's machine building division developed presses suitable for non-automobile applications such as white goods, tiles, etc. Further, the company's steel casting unit developed the capability of manufacturing crushing shell castings for the mining & mineral processing industry.

In FY 2013-14, the boiler division of IHEL has ventured into new products including Heat recovery steam generators, Waste heat recovery boilers and Pin hole grate boilers. The division has also ventured into Repair and maintenance business for the first time. The company has commissioned first domestic order for Pulverized coal fired boiler and the first Electrostatic precipitator in accordance with the technology acquired from Envirotherm GmbH, Germany.

Recent Results

For FY2016, IHEL reported a net profit of Rs. 173.99 crore on an operating income of Rs. 3878.79 crore. For the year ended March 31, 2015, IHEL reported a net profit of Rs. 143.19 crore on an operating income of Rs. 3277.42 crore.

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