

March 27, 2025

ISGEC Heavy Engineering Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long-term Fund-based Working Capital	600.00	600.00	[ICRA]AA (Stable); reaffirmed
Short-term – Non-fund Based Working Capital	3800.17	3800.17	[ICRA]A1+; reaffirmed
Long-term/Short-term - Fund-based/Non-fund Based Working Capital	1099.83	1099.83	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long-Term – Fund based – TL	50.00	50.00	[ICRA]AA (Stable); reaffirmed
Total	5550.00	5550.00	

*Instrument details are provided in Annexure I

Rationale

ICRA has considered the consolidated financials of ISGEC Heavy Engineering Limited (IHEL) while assigning the credit ratings. The reaffirmation of the rating continues to draw comfort from steady order flows transpiring in healthy and well diversified consolidated order book of Rs. 7,334 crore (~1.2 times FY2024 operating income; lower from the peak of Rs 8,667 crore as on September 30, 2023), and improvement witnessed in profitability as well as debt metrics of the company, in line with previous expectations. Going forward, profitability is expected to be steady.

The total debt of the group has declined significantly to Rs. 814 crore as on March 31, 2024 (PY: Rs. 1,235 crore) primarily on account of significantly lower working capital and term debt at IHEL and ISGEC Hitachi Zosen Limited (IHZL; rated [ICRA]A-(Positive)/A2+), partially offset by higher debt at Saraswati Sugar Mills Ltd (SSML; rated [ICRA]A(Stable)/A1) and CBPI Philippines integrated ethanol plant. Consequently, gearing improved to 0.31 times as on Mar 31, 2024 (PY: 0.52x). Lower gearing levels coupled with higher OPBIDTA has also strengthened the coverage metrics in FY2024-9MFY2025 with interest cover of 6.0 times in FY2024 (PY: 4.9 times), which further improved to ~7.2 times in 9MFY2025. Total debt/OPBIDTA declined to 1.6 times in FY2024 (PY: 2.8 times) and DSCR remained stable at 1.6 times in FY2024 (PY: 1.6 times).

ICRA also takes note of the SPA (share purchase agreement) to sell the CBPI plant, which was signed with Triumph Excel Ltd in Dec-2024. The transaction is expected to be completed by May-2025, subject to timely regulatory approvals. IHEL expects dues of USD ~85 million from CBPI to be realised post transaction. Materialization of this transaction should aid further improvement in credit profile of IHEL, as it will lead to lower debtors and significantly lower net debt and thus remains a key monitorable.

IHEL's standalone working capital requirements had steadily rose over FY2018-FY2023 from sub-10% to ~28-30% with its changing order book profile, tilting towards government/PSU orders which are often marred by delays. However, with improving share of manufacturing and better payment terms in EPC contracts, working capital intensity of the Group also improved to ~21.3%/18.6% in FY2024/H1FY2025. This has led to reduction in working capital debt as stated above.

The ratings favourably factor in the established position of IHEL as an EPC company and a fabricator for equipment/machinery in the capital goods sector, aided by its long-term technical tie-ups/alliances with several recognised global heavy engineering companies as well as its in-house design and manufacturing capability. This apart, the ratings factor in the well-diversified healthy order book across industry segments, customers and geographies, covering a wide range of product segments. Additionally, the company has a sufficient cushion of non-fund-based limits to address its fresh order requirements over the near to medium term. Further, the absence of cash margin requirements supports the company's financial flexibility.

Further, the Group's operating margins are vulnerable to volatile raw material prices, particularly for fixed-price EPC contracts, given the long order execution period of about 18-24 months. The proportion of longer duration orders has reduced over FY2023-9MFY2025, and the new orders are expected to have better margins as IHEL has factored in higher level of commodity prices at the time of bidding for the same. This has aided improvement in margins (7.6%/8.9% in FY2024/~9MFY2025; bank charges in other expenses adjusted in finance costs) as well as coverage metrics, which are expected to remain stable going forward.

Further, the policy of fully hedging its forex exposures also mitigates the currency fluctuation risks to a large extent. Additionally, the margins in the sugar business remain vulnerable to changes in government policy (which are favourable currently) and agro-climatic conditions.

The Stable outlook on the rating reflects ICRA's opinion that IHEL will continue to benefit from its established position as a leading EPC player and manufacturer of capital goods with a healthy and well-diversified order backlog, translating into expectations of a steady credit profile.

Key rating drivers and their description

Credit strengths

Established position as a leading EPC player and manufacturer for capital goods - The company has a strong market position in the capital goods segment, which contributes to majority of its revenues and profits. Apart from the in-house capabilities, IHEL has several technology joint ventures (JVs) and strategic technology partnerships with international majors. Moreover, IHEL's long track record of more than 75 years in the industry and its ability to absorb and indigenise technology bolster its market position.

Over FY2023-H1FY2025, the EPC business contributed ~50-55% to IHEL's gross revenues (reducing from ~60% over FY2019-FY2022), ~31-34% came from manufacturing (increasing from ~26-29% over FY2019-FY2022) with the balance from the sugar and ethanol operations. With captive manufacturing and fabrication facilities across key product segments such as presses, boilers, process equipment, IHEL enjoys benefits of synergies between its manufacturing and its EPC segment which is characterised by sound designing and execution capabilities.

Healthy and diversified order book - IHEL continues to have a healthy order book of Rs. 7334 crore at the consolidated level and Rs. 6461 crore at the standalone level as on December 31, 2024, which lends healthy medium-term revenue visibility. Further, the consolidated order book is well diversified across industry segments with refineries contributing 32% of the order book, followed by power (18%), sugar (9%), steel, cement and aluminium (11%), chemicals, petrochemicals and fertiliser (14%), auto (5%) and the balance (11%) by other segments. The diversified orderbook limits vulnerability of IHEL's orders and revenue booking to cyclicity in any single industry capacity expansions.

Further, the completion of projects within the agreed timelines while maintaining the desired quality parameters is critical to minimise the liabilities arising from project delays and performance issues. The order book, however, is spread across more than 200 individual orders, resulting in modest order concentration. The top 5 and top 10 orders account for ~15% and ~24%, respectively, of the pending order book as on December 31, 2024 on a standalone level.

Improvement in profitability which is expected to remain steady going forward - OPM (operating profit margin) has improved from 7% in FY2023 to 8.2%/~8.5% in FY2024/9MFY2025 owing to higher share of Manufacturing in revenues and improvement in PBIT% for the Manufacturing segment as well. Further improvement in OPM for SSML and IHZL in FY2024 also partly contributed to uptick in OPM.

During 9MFY2025, while OPM for SSML declined, but there has been significant improvement in OPM for IHEL at standalone level (8.9% in 9MFY2025 vs 7.6% in FY2024) driving slight overall improvement in consolidated OPM (from 8.2% in FY2024 to 8.5% in 9MFY2025). This has been driven by the receding share of legacy fixed-price orders awarded during previous years, which were impacted by commodity inflation.

With revenue mix expected to remain at current levels, margins also expected to be largely stable going forward. CBPI plant reported operational losses in 9MFY2025. With sale of the plant expected to materialize by May-2025, OPM might witness slight improvement going forward.

Credit challenges

Moderately high capital requirements - IHEL's working capital requirements steadily rose over FY2018-HFY2024 to ~28-30% from sub-10%, led by high revenue growth in the EPC segment over FY2018-FY2022 and its changing order profile towards PSU orders. While the revenue from project business contribution has moderated over FY2023-H1FY2024, IHEL is yet to witness meaningful improvement in working capital intensity at a standalone level. While a large order book entails high retention money build-up, many incremental orders do not offer interest-free customer advances, as was common in the past. This, along with varying payment cycles, especially with longer duration EPC contracts, as well as Covid-related disruptions over FY2021-FY2022 resulted in higher working capital intensity. IHEL utilised its existing cash and liquid investments and debt to fund these increased requirements.

Operating margins vulnerable to volatile raw material prices, particularly for fixed-price EPC contracts – The cost of key raw materials for equipment manufacturing such as steel and several other bought-out components make up for IHEL's raw material cost. Given the long order execution period of about 18-24 months for projects, the operating margin remains vulnerable to the volatility in the prices of key raw materials, given the generally fixed-price nature of contracts. Headwinds in commodity prices as well as time and cost overruns due to delays in project execution could adversely impact profitability as well as working capital cycle. Further, the margins in the sugar business remain vulnerable to the changes in government policy (which are favourable currently) and agro-climatic conditions.

Intense competition from domestic and international players - IHEL faces competition from various domestic and international players, which has kept the company's operating margins at modest levels of 4-8% over the last few fiscals.

Environmental and social risks

Environmental considerations: The company is exposed to the risks arising from tightening regulations on environment, specifically pertaining to discharge/treatment of effluents, and on the safety front. These have necessitated IHEL to increase its investments towards meeting the evolving and tighter regulatory standards. As per the disclosures made by IHEL, its products and services are designed to achieve better parameters than the legal environment norms set by the Government for emission, water and energy efficiency. Further, some of IHEL's products (air pollution control equipment) are focused on addressing environmental problems. Also, the Group is alert to the possibility of environmental risks due to discharge of waste water and hence it ensures waste water treatment, recycling and reuse. Additionally, IHEL gets periodic energy audits done. Further, the emissions/waste generated by IHEL are within the permissible limits of the Central Pollution Control Board (CPCB)/State Pollution Control Board (SPCB). Also, there were no pending show cause/legal notices from CPCB/SPCB at the end of FY2024. This indicates that IHEL has been able to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. Moreover, with respect to the sugar business, being an agri-commodity, the sugarcane crop depends on climatic conditions, besides being vulnerable to pests and diseases. These factors can affect both the yield per hectare as well as the recovery rates which in turn can affect SSML's profitability.

Social considerations: IHEL's success depends critically on its competent workforce with talent as the primary source of competitive edge. Failure to hire, motivate and retain talent pool with necessary competencies may impact the organisation's ability maintain and expand its business operations, and consequently its profitability. As per the disclosures made by the company, it has initiated various measures to improve the retention of trained and talented employees in the context of emerging market conditions. Additionally, customer satisfaction remains critical for IHEL's successful operations and it conducts surveys on a regular basis to ensure this. With respect to the sugar business, the worldwide societal shift to less sugar-intensive food products because of health issues could structurally reduce the demand for sugar products. However, such changes in consumer behaviour or any other driver of change is expected to be relatively slow paced. Therefore, while IHEL remains exposed to the aforementioned social risk, it does not materially affect its credit profile as of now.

Liquidity position: Adequate

IHEL's liquidity profile is adequate with unencumbered cash balance and mutual fund investments of Rs. ~157 crore (standalone) as on December 31st, 2024 and average cushion in sanctioned limit of over Rs. ~500 crore (standalone) in 12 months ended Dec-2024. Further, retained operating cash flows are likely to be comfortable in Q4FY2025 and is expected to improve to healthier levels in FY2026 with relatively lower working capital intensity and stable profitability. ICRA expects IHEL (standalone) to comfortably meet its debt repayment obligations of ~Rs. 20/84 crore in FY2026/FY2027. ICRA also notes that IHEL (standalone) is expected to incur a capex of Rs. 75-100 crore per annum in the medium term, which is expected to be met partly from debt, but largely from internal accruals. Apart from capex for corporate office (being funded by debt of Rs. 120 crore over FY2025-FY2026), no major debt-funded capex is expected at CPBI project or other subsidiaries in the near term. Liquidity profiles of key subsidiaries - IHZL and SSML, are also adequate.

Rating sensitivities

Positive factors – Favourable rating action could be taken if the company demonstrates a significant increase in the order book execution while improving the operating profits and cash generation that would strengthen the liquidity and debt coverage metrics on a sustained basis. A specific metric that could lead to an upgrade is net debt/OPBIDTA below 0.8 times.

Negative factors – Negative pressure on the ratings could arise if there is a considerable decline in revenue due to lower order book execution, or reduction in profit margins and cash flow generation, resulting in weakening of liquidity and debt coverage metrics on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IHEL. List of companies given in Annexure-2.

About the company

ISGEC Heavy Engineering Limited (IHEL), a public company under the ISGEC Group, manufactures heavy engineering equipment and provides related EPC/turnkey services. The company was established in 1946 by the Puri family and was initially named Saraswati Industrial Syndicate Limited. The initial activity was the manufacture of spares for sugar mills to complement the Group's sugar mills operations. Over a period of time, the company diversified into a range of engineering products and projects, including process equipment, sugar plants and distilleries, air pollution control equipment, industrial boilers, power projects, bulk material handling, industrial water waste treatment and liquefiable gas containers. Apart from in-house capabilities, IHEL has a number of technology joint ventures (JVs) and strategic technology partnerships with global EPC players such as Hitachi Zosen Corp., Foster Wheeler North America Corp., AP&T, BabcockPower USA, Riley Power USA etc., which enables it to command a leadership market position across many product categories

Key financial indicators (audited)

IHEL Consolidated	FY2023	FY2024	9M FY2025*
Operating income	6,363	6,200	4,680
PAT	206	255	186
OPBDIT/OI	7.0%	8.2%	8.5%
PAT/OI	3.2%	4.1%	4.0%
Total outside liabilities/Tangible net worth (times)	1.9	2.0	-
Total debt/OPBDIT (times)	2.8	1.6	1.8
Interest coverage (times)	4.9	6.0	7.3

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years						
				FY2025	FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based Working Capital	Long-Term	600.00	Mar 27, 2025	[ICRA]AA (Stable)	Nov 23, 2023	[ICRA]AA (Stable)	Aug 25, 2022	[ICRA]AA (Stable)	May 25, 2021	[ICRA]AA (Negative)
					Dec 19, 2023	[ICRA]AA (Stable)	Nov 28, 2022	[ICRA]AA (Stable)		
Non-fund Based Working Capital	Short-Term	3800.17	Mar 27, 2025	[ICRA]A1+	Nov 23, 2023	[ICRA]A1+	Aug 25, 2022	[ICRA]A1+	May 25, 2021	[ICRA]A1+
					Dec 19, 2023	[ICRA]A1+	Nov 28, 2022	[ICRA]A1+		
Fund-based/Non-fund Based Working Capital	Long-Term/Short-Term	1099.83	Mar 27, 2025	[ICRA]AA (Stable)/[ICRA]A1+	Nov 23, 2023	[ICRA]AA (Stable)/[ICRA]A1+	Aug 25, 2022	[ICRA]AA (Stable)/[ICRA]A1+	May 25, 2021	[ICRA]AA (Negative)/[ICRA]A1+
					Dec 19, 2023	[ICRA]AA (Stable)/[ICRA]A1+	Nov 28, 2022	[ICRA]AA (Stable)/[ICRA]A1+		
Fund based – TL	Long-Term	50.00	Mar 27, 2025	[ICRA]AA (Stable)	Dec 19, 2023	[ICRA]AA (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term Fund-based Working Capital	Simple
Short-term – Non-fund Based Working Capital	Very Simple

Long-term/Short-term - Fund-based/Non-fund Based Working Capital	Simple
Long-Term – Fund based – TL	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Long-term Fund-based Working Capital	NA	NA	NA	600.00	[ICRA]AA (Stable)
NA	Short-term – Non-fund Based Working Capital	NA	NA	NA	3800.17	[ICRA]A1+
NA	Long-term/Short-term - Fund-based/Non-fund Based Working Capital	NA	NA	NA	1099.83	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Long-Term – Fund based – TL	FY2021	NA	Q4FY2024	50.00	[ICRA]AA (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company name	ownership	Consolidation approach
ISGEC Heavy Engineering Limited	100.00% (rated entity)	Full consolidation
ISGEC Covema Ltd	100.00%	Full consolidation
ISGEC Exports Ltd	100.00%	Full consolidation
Saraswati Sugar Mills Ltd.	100.00%	Full consolidation
ISGEC Engineering & Projects Ltd.	100.00%	Full consolidation
Free Look Software Private Ltd.	100.00%	Full consolidation
ISGEC Hitachi Zosen Ltd	51.00%	Full consolidation
ISGEC SFW Boilers Private Ltd	51.00%	Full consolidation
ISGEC Titan Metal Fabricators Private Ltd.	51.00%	Full consolidation
ISGEC Redecam Enviro Solutions Private Ltd.	51.00%	Full consolidation
Eagle Press & Equipment Co. Limited	100.00%	Full consolidation
ISGEC Investments Pte Ltd	100.00%	Full consolidation

Source: Annual report FY2024

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Ankit Jain

+91 124 4545 865

ankit.jain@icraindia.com

Rohan Rustagi

+91 124 4545 383

rohan.rustagi1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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