September 03, 2025

ISGEC Hitachi Zosen Limited: Long Term Ratings upgraded to [ICRA]A (Stable); outlook for the long term ratings revised to Stable from Positive; Short term rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long Term - Fund-based – Cash Credit	100.00	-	-
Long Term - Non-fund based - Others	100.00	-	-
Long Tern – Fund Based - Term loans	2.50	-	-
Long Term/ Short Term - Fund-based/Non-fund based - Others	690.00	890.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive) and outlook revised to Stable from Positive/ [ICRA]A2+; reaffirmed
Long Term/ Short Term - Unallocated	12.50	15.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Positive) and outlook revised to Stable from Positive/ [ICRA]A2+; reaffirmed
Total	**905.00**	**905.00**	

**Instrument details are provided in Annexure I*

Rationale

The upgrade in the long-term ratings of ISGEC Hitachi Zosen Limited (IHZL) factors in ICRA's expectation of steady increase in scale going forward owing to strong order book position. Medium-term demand outlook continues to remain healthy for both the domestic as well as export markets, which should lead to healthy order intake over the medium term. The profitability is also expected to remain comfortable which will translate into healthy cash flow generation. With increased scale and healthy profitability, the credit metrics and liquidity position is expected to remain comfortable going forward.

ICRA notes the significant improvement in order intake in FY2024 (Rs. 1,008 crore in FY2024 vs Rs. 531/449 crore in FY2022/FY2023), which has led to expansion in scale of operations in FY2025. With order inflows more than doubling in FY2024 to Rs. 1008 crore, driven by 2 large orders from Reliance and Nayara, has led to record high order backlog of Rs. 1048 crore as on Mar-2024. Order inflows moderated in FY2025 to Rs. 443 crore in FY2025 but order book continues to remain healthy as on Mar-2025 at Rs. 853 crore.

The ratings continue to draw comfort from the favourable credit profile of the company's shareholders — Isgec Heavy Engineering Limited (IHEL, rated [ICRA]AA/ Stable/ [ICRA]A1+) and Hitachi Zosen Corporation (HZC) (name changed to Kanadevia w.e.f. Oct , 2024) — as well as their established position in the engineering capital goods space. Further, IHEL shares its brand name with IHZL. In addition to the technological expertise of its stakeholders that has enabled the company to expand its product offerings, IHZL derives strengths from the continued marketing support from the joint venture partners. Additionally, IHZL benefits from the location of its fabrication unit at Dahej, Gujarat. The proximity of the unit to the port enables efficient logistical management, given the sizeable supplies to global customers.

ICRA continues to positively factor in IHZL's healthy capital structure. IHZL has availed limited long term debt in the past and utilizes its working capital limits moderately. While year-end WC (working capital) debt increased to Rs. 99 crore (excluding a short-term loan in lieu of customer advance for execution of a large order) as on Mar-2025 vs nil as on Mar-2024, average WC debt during FY2025 was stable YoY at Rs. ~60 crore. Consequently, interest cost was also stable YoY in FY2025. Capitalization and coverage indicators continued to remain healthy.

External debt/TNW and external debt/OPBIDTA stood at 0.5 times and 1.3 times respectively. Interest coverage (on total interest) improved to 4.7 times in FY2025 (PY: 3.4 times), and DSCR (on external interest and repayments) improved to 6.8 times in FY2025 vs 4.0 times in FY2024. Going forward, average WC debt is expected to be in the range of Rs ~60-100 crore for FY2026, as execution picks up pace. Coverage and capitalization metrices are expected to remain healthy and might improve further over the medium term, if profitability improves.

The ratings also consider the fact that the company follows a policy of hedging its foreign currency-denominated exposure, which mitigates the currency risks to a large extent. However, the ratings are constrained by the volatility of the company's revenues, given the lumpiness of order booking and the long order manufacturing cycle. Moreover, given the company's presence in niche product segments, its order book remains concentrated towards a few industries, such as oil and gas (refining specifically) and fertilisers, and links IHZL's business prospects to the capacity investment plans of these sectors.

The ratings also remain constrained by competition from both domestic and international players. Moreover, the company's profit margins remain exposed to the fluctuations in the prices of key raw materials, as equipment supply contracts are typically fixed price in nature and IHZL has a long execution cycle. However, the company largely mitigates the raw material price risk by entering into fixed-price contracts with vendors that are back-to-back and within a short duration of the order award for a large proportion of its raw material. However, the company still remains exposed to sharp variations in energy and freight costs, evident from the decline in operating profit margins (OPM) in FY2023, which recovered over FY2024-FY2025.

During FY2025, OPM remained stable at 12.1%. IHZL didn't have to incur material additional capex despite improvement in scale. Hence, ROCE was much better at 15.5% in FY2025 vs 11.4% in FY2024. OPM is expected to largely remain stable.

Further, IHZL has been able to gradually improve its overall standalone operations keeping its dependence on JV partners for technology and financial support limited, for project design as well as execution. IHZL's entire limits are now without requirement of corporate guarantee from IHEL, a testament to lenders deriving more comfort from IHZL's standalone credit profile.

The Stable outlook factors in expectations of IHZL maintaining stable profitability and coverage metrics over the medium term in addition to getting benefits from its strong operational and financial linkages with the parent. Further, IHZL has been able to gradually improve its overall standalone operations keeping its dependence on JV partners for technology and financial support limited, for project design as well as execution.

Key rating drivers and their description

Credit strengths

Established position of IHZL's shareholders in engineering capital goods – IHEL and HZC, the JV partners in IHZL, are reputed players in the engineering capital good space. IHEL has product offerings for capital goods, including boilers, presses, pressure vessels, among others and caters to clients across 90 countries. Japan-based HZC is a global player across various business verticals, including industrial plants, environmental systems, process equipment and precision machinery. Both the entities have a strong market position in their respective geographies with a long track record of execution and client relationship. Further, IHZL's facilities were in the past backed by IHEL's corporate guarantee (CF), even as currently entire limits are without support of IHEL's CG.

Operational synergies with JV partners – Given the niche segments IHZL operates in as well as the need for licences for critical process equipment like reactors, convertors, among others, its business generation is led by its JV. Notably, these JV partners also have significant involvement in the operations, evident from the technical personnel stationed at the projects. Thus, the company benefits from the operational synergies and client relationships of its shareholders. IHZL either receives direct orders facilitated by the JV partners or undertakes job work for their orders.

Healthy order book indicates adequate revenue visibility – IHZL's order book stood at Rs. 1048 crore as on March 31, 2024 (Rs. 853 crore as on March 31, 2025), lending healthy revenue visibility over the medium term. The order bookings increased significantly by 124% YoY to Rs. 1008 crore in FY2024 (Rs. 449 crore in FY2023), driven by large orders from Reliance Solar, Nayara Energy and Technimont. The pace of order inflow moderated in FY2025 along expected lines with focus more on execution of exceptionally high opening order book as on Mar-2024,

Order inflows moderated in FY2025 to Rs. 443 crore in FY2025 but order book still remain healthy. Order inflow are expected to be better YoY in FY2026, and IHZL has already achieved Rs. 260 crore inflows during YTDFY2026 (till mid-August 2025). Medium term demand outlook continues to remain healthy for both the domestic as well as export markets, which should lead to healthy order intake over the medium term.

Healthy capital structure and debt coverage metrics – ICRA continues to positively factor in IHZL's healthy capital structure. IHZL has availed limited long term debt in the past and utilizes its working capital limits moderately. While year-end WC debt increased to Rs. 99 crore (excluding Jio Finance loan which is in lieu of customer advance for execution of Reliance order) as on Mar-2025 vs nil as on Mar-2024, average WC debt during FY2025 was stable YoY at Rs. ~60 crore. Consequently, interest cost was also stable YoY in FY2025. Capitalization and coverage indicators continued to remain healthy.

External debt/TNW and external debt/OPBIDTA stood at 0.5 times and 1.3 times respectively. Interest coverage (on total interest) improved to 4.7 times in FY2025 (PY: 3.4 times), and DSCR (on external interest and repayments) improved to 6.8 times in FY2025 vs 4.0 times in FY2024. Going forward, average WC debt is expected to be in the range of Rs ~60-100 crore for FY2026, as execution picks up pace. Coverage and capitalization metrices are expected to remain healthy and might improve further over the medium term, if profitability improves.

Credit challenges

Exposure to input price risks – The profitability of the company remains exposed to the fluctuations in the prices of key raw materials, given that the equipment-supply contracts it enters into are typically fixed price in nature. However, as the manufacturing cycle is long, the company largely mitigates the raw material price risk by entering into fixed-price contracts for a large proportion of its bought-out raw material for which negotiations with vendors start during the pre-bid period. However, the company still remains exposed to sharp variations in energy and raw material costs, evident from the decline in OPM in FY2023. IHZL's OPM declined sharply to 10.3% in FY2023 from 17.0% in FY2022 due to the impact of higher energy and freight costs, and to some extent higher raw material prices. OPM recovered in FY2024 to 12.9%, with higher prices factored in the new orders being booked, and has largely remained stable in FY2025 at 12.1%.

Volatility in revenues and operating profitability, along with long working capital cycle – The company's revenues have been volatile in the last seven years because of lumpy order bookings, longer order execution timelines of 15–18 months and project completion-based revenue recognition. IHZL's revenues in FY2025 stood at Rs. 614 crore, witnessing a growth of 29% YoY. However, the same was in line with expectations due to exceptionally high opening order backlog of Rs. 1008 crore as on Mar-2024. With opening order backlog of Rs. 853 crore as on March-2025, FY2026 revenue guidance is of Rs. ~700 crore (ICRA estimates it at around Rs. 650 crore), while orders inflows are expected to be Rs. ~500-600 crore with Rs. ~260 crore inflow already achieved in YTDFY2026 (till mid-August 2025). Revenues during 4MFY2025 stood at Rs. 165 crore.

However, IHZL's ability to register growth in FY2027-FY2028 will depend on order booking over the next few quarters coupled with recovery in end-user segments (fertilizer, oil & gas, and chemicals) and efficient execution by IHZL.

Exposure to demand cyclicality in end-user industries and competitive pressures – IHZL manufacturers niche products for specific industries, namely fertilisers, oil refineries and petrochemicals. Hence, its order booking remains exposed to the capital expenditure cycle in these industries, adding to the lumpiness. As on March 31, 2025, around 48% of the company's orders were from the oil refineries/petrochem sector, with 49% being from the fertiliser segment and the balance 4% from the chemical/other segments. It also remains exposed to competition from established players. However, this is partly mitigated by the strong market position and the established relations of its JV partners, leading to business generation.

Liquidity position: Adequate

Despite the long working capital cycle, IHZL has a satisfactory working capital management policy, where the project execution begins only after the receipt of customer advances. The company had moderate unutilised fund-based limits with an average cushion in sanctioned limits (limited to drawing power) of around Rs. ~230 crore in the last 12 months till Jun-2025. Cushion in drawing power is estimated to be at a similar level in FY2026 or higher. The utilisation of limits has remained less than Rs. 110 crore during aforementioned period, with the average utilisation being Rs. ~80 crore. Average utilization is expected to remain less than Rs. 100 crore in FY2026 as well.

The presence of promoters with a strong credit profile indicates financial flexibility. Further, with nil term loan repayment commitments and only routine capex to be incurred over the medium term, the liquidity remains adequate.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if IHZL demonstrates a sustained improvement in its revenues, profits and coverage metrics. Any major improvement in the parent company's financial profile can also trigger a favourable rating outcome.

Negative factors – ICRA could downgrade the ratings if there is a moderation in the order inflow, translating into a stagnation or decline in revenues and profits or a weakening of the coverage metrics on sustained basis. Additionally, any deterioration in the working capital cycle that weakens the liquidity position, and/or interest coverage below 3.5 times on sustained basis can also trigger a downward revision. Further, deterioration in the credit profile of IHZL's parent IHEL, or weakening of linkages with the parent can also lead to a rating revision.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: ISGEC Heavy Engineering Ltd The rating assigned to IHZL factors in the high likelihood of its parent, IHEL [rated [ICRA]AA (Stable)], extending financial support to it because of the close business linkages between them. ICRA also expects IHEL to be willing to extend financial support to IHZL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of IHEL having extended corporate guarantees to IHZL's lenders for its facilities
Consolidation/Standalone	Standalone

About the company

IHZL, incorporated in March 2012, is a 51:49 JV between IHEL of India and HZC of Japan. The JV is involved in the manufacturing of specialised and critical process equipment for the oil refining, fertiliser and petrochemical industries. IHZL benefits from the technological capability and customer base of its shareholding entities, IHEL and HZC, which are also responsible for the bidding/marketing function of the company. Collaboration with HZC has given it access to licensed technology to build the critical process equipment. The JV has a fabrication facility based in Dahej, Gujarat.

Key financial indicators (audited)

IHZL (Standalone)	FY2024	FY2025
Operating income	477.4	613.9
PAT	15.3	26.7
OPBDIT/OI	12.9%	12.1%
PAT/OI	3.2%	4.4%
Total outside liabilities/Tangible net worth (times)	3.2	4.4
Total debt/OPBDIT (times)	1.8	2.7
Interest coverage (times)	3.4	4.7

Source: Company, ICRA Research; 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 (FY2026)				Chronology of rating history for the past 3 years					
			FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-term	-	Sep 03, 2025	-	Nov 25, 2024	[ICRA]A- (Positive)	Oct 04, 2023	[ICRA]A- (Stable)	Aug 30, 2022	[ICRA]A- (Stable)
Non-fund based - Others	Long-term	-	Sep 03, 2025	-	Nov 25, 2024	[ICRA]A- (Positive)	Oct 04, 2023	[ICRA]A- (Stable)	Aug 30, 2022	[ICRA]A- (Stable)
Term loans	Long-term	-	Sep 03, 2025	-	Nov 25, 2024	[ICRA]A- (Positive)	Oct 04, 2023	[ICRA]A- (Stable)	Aug 30, 2022	[ICRA]A- (Stable)
Fund-based/Non-fund based - Others	Long-term/ Short-term	890.00	Sep 03, 2025	[ICRA]A (Stable)/ [ICRA]A2+	Nov 25, 2024	[ICRA]A- (Positive)/ [ICRA]A2+	Oct 04, 2023	[ICRA]A- (Stable)/ [ICRA]A2+	Aug 30, 2022	[ICRA]A- (Stable)/ [ICRA]A2+
Unallocated	Long-term/ Short-term	15.00	Sep 03, 2025	[ICRA]A (Stable)/ [ICRA]A2+	Nov 25, 2024	[ICRA]A- (Positive)/ [ICRA]A2+	Oct 04, 2023	-	-	-
Unallocated	Long-term	-	Sep 03, 2025	-	Nov 25, 2024	-	Oct 04, 2023	-	Aug 30, 2022	[ICRA]A- (Stable)
Fund-based	Long-term	-	Sep 03, 2025	-	Nov 25, 2024	-	Oct 04, 2023	-	Aug 30, 2022	[ICRA]A- (Stable)
Non-fund based	Long-term	-	Sep 03, 2025	-	Nov 25, 2024	-	Oct 04, 2023	-	Aug 30, 2022	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term/ Short Term - Fund-based/Non-fund based - Others	Simple
Long Term/ Short Term - Unallocated	Not Applicable

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/ Short Term - Fund-based/Non-fund based - Others**	NA	NA	NA	890.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	**Long Term/ Short Term - Unallocated**	NA	NA	NA	15.00	[ICRA]A (Stable)/ [ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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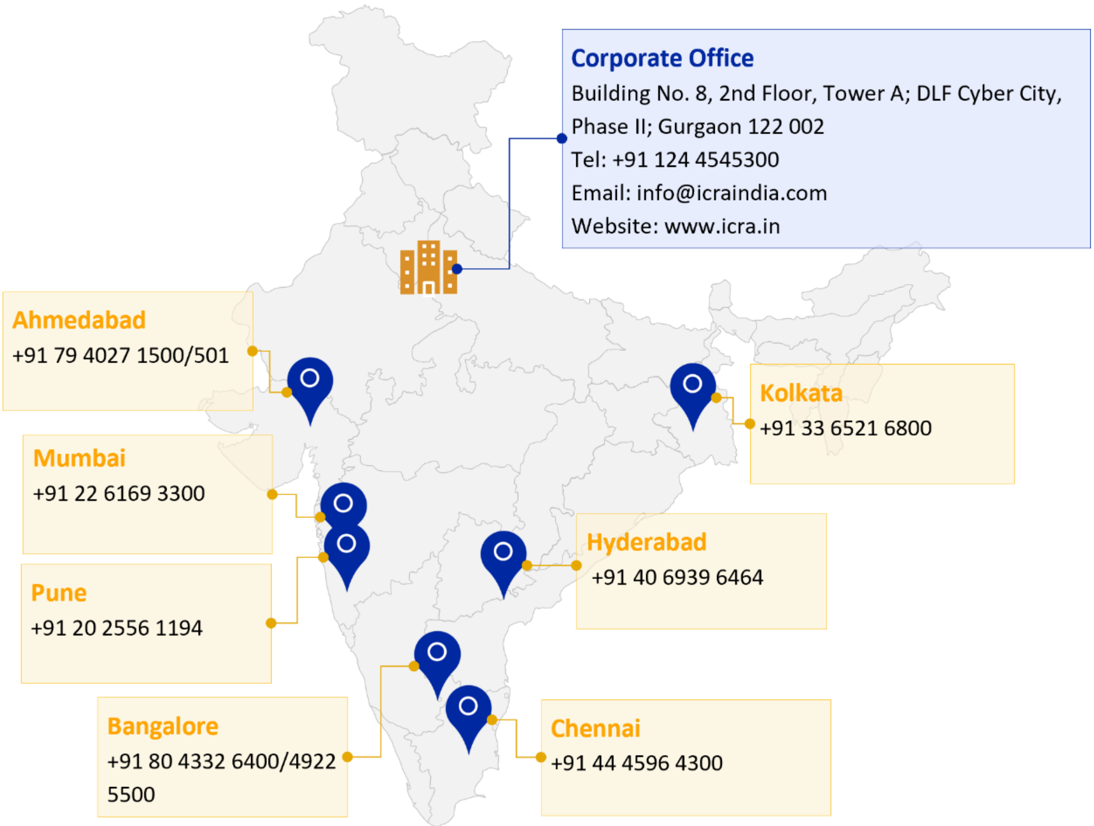

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