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To,
Bombay Stock Exchange Ltd.
Registered Office: Floor 25,
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Mumbai – 400 001
Company Scrip Code: 533033

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051
Company Symbol: ISGEC EQ

Dear Sir(s)/Madam(s),

**Furnishing of Information as per
SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

**Sub: Transcript of the Conference Call held for Analysts and Investors pertaining to
financial performance of the Company for the quarter ended June 30, 2022**

1. Please find enclosed the Transcript of the Investor Conference Call organised by the Company on Friday, August 12, 2022, at 15:00 hours (IST) with regard to the financial performance of the Company for the quarter ended June 30, 2022.
2. This letter is being sent in compliance with the provisions of the Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and all other SEBI Regulations as applicable.
3. This information is also available on the website of the Company at www.isgec.com
4. The above is for your information and records, please.

Thanking you

Yours faithfully,
For Isgec Heavy Engineering Limited

(Shweta Agrawal)
Company Secretary & Compliance Officer

Encl: Transcript of the Investor Conference Call



Isgec Heavy Engineering Limited Q1 FY23 Earnings Conference Call

Event Date / Time : 12/08/2022 , 15:00 Hrs

CORPORATE PARTICIPANTS:

Mr. Aditya Puri - Managing Director

Mr. Kishore Chatnani - Whole-time Director and CFO

Mr. Sanjay Gulati - Whole-time Director and Head- Manufacturing Units

Moderator

Good afternoon, ladies and gentlemen. I'm Honeyla, moderator for the conference call. Welcome to Isgec Heavy Engineering Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Ms. Aashna from ICICI Securities. Thank you and over to you, Ma'am.

Aashna Manaktala

Thank you, Honeyla, and good day everyone. On behalf of ICIC Securities, I would like to welcome you all for the Q1 FY23 earnings conference call of Isgec. The management today is being represented by Mr. Aditya Puri, Managing Director; Mr. Kishore Chatnani, Whole-time Director and CFO; Mr. Sanjay Gulati, Whole-time Director and Head- Manufacturing Units. We will start the call with the opening remarks on the results and outlook by Mr. Puri, post that we can have the Q&A session. I would now like to hand over the call to Mr. Puri for his opening remarks. Thank you, sir. Over to you.

Aditya Puri

Thank you. Good afternoon, everyone, and thank you for joining us on our earnings conference call. I hope that you and your loved ones are all well and safe. We look forward to a fruitful interaction.

You would have seen the quarterly financial results that we have published on the 10th of August 2022. We've uploaded our presentation on BSE/NSE and on our website www.isgec.com earlier today. There is also much more information about our business on our website.

In the standalone results, the profitability in the manufacturing segment has been impacted in this quarter because of unexpected losses in one particular export job. The profitability in the EPC segment is better. In the consolidated results, the profitability in the sugar segment has improved because of higher sale of sugar, due to some exports in Q1, and revenue and profits from the ethanol plant.

I will now talk about the order booking. The consolidated order booking for Q1 of FY 2023 is INR 1,331 crores compared to INR 2,366 crores of order book in Q1 of last year. The consolidated orders in-hand on 30th June, 2022, are INR 7,736 crores against INR 7,924 crores as on 30th June, 2021.

The order book position is satisfactory. Of the consolidated order book 73% is for project business and 27% for product businesses. The order book includes INR 1,101 crores for export orders, which is just over 14%. The order book for Isgec Hitachi Zosen is also good. It has INR 792 crores of orders as on 30th June, 2022.

The overall demand trend is encouraging as the inquiry position continues to be good. Export inquiries have also picked up.

Regarding the Cavite biofuel ethanol plant in the Philippines, we have started construction this month and expect to complete the plant by July 2023.

This is all from my side, I would now request the floor to be open for question-and-answer session.

Thank you.

Moderator

Thank you, Sir. The first question comes from Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta

Yeah. Hello, Sir. My first question is regarding our manufacturing unit. If we look at the order booking across a lot of segments and sub-segments who cater to either power, either refinery or general industrial consumables, the order booking of some of these sectors have significantly gone up. But I do not see that kind of order booking going up for us. Also, like if you look at the improvement in margins of some of these companies, especially over the last 5-6 quarters, has been significant. And I'm not talking of 1 or 2 companies, I'm talking a plethora of 10-12 companies. If I were to compare how we as a company behaved in 2010, 2011, 2012 to 2017, and how we are lagging the sector, there is a significant difference in how we are operating in a particular environment. Can you throw some light why that is happening with us?

Aditya Puri

So, as far as the order booking is concerned, we are very comfortably placed in manufacturing, in all the areas that we are in, except for some parts of the business which cater to very short delivery orders, where the cycle time is 2 months or 3 months. Otherwise, we are actually booked for maybe 12 months now. So, in manufacturing, there is no shortage of orders. The margin, this quarter has got impacted because we lost money in one export order. And we lost a lot of money over there. But we expect the margins in manufacturing to improve from this quarter onwards. So,

our manufacturing order book is very good at this point in time. And we are very hopeful that profits would also improve.

Viraj Mehta

Sure, Sir. My second question is, if you look at your commentary over last one year, our margins have significantly fallen because you had said that higher raw material prices, steel price had gone up and we had fixed price contracts. Now that steel has fallen, and we have the same fixed price contracts or a portion of it at least, shouldn't the reverse work for us? Like what eroded 2%, 3% of our margins from a normalized margin. Shouldn't that work for us? Like shouldn't our margins be 2-3% higher than normal when the tide turns like this?

Aditya Puri

So, when those orders move out, and the orders that we've been booking in the last two or three months after the commodity prices have come down, or the orders that we have booked when we knew that the commodity prices were higher. Once those start getting dispatched, then the impact will come. Right now, we're still dispatching what was booked when the commodity prices were initially lower.

Kishore Chatnani

When the revenue for those orders come in, you'll see the margins going up.

Viraj Mehta

No Sir, steel prices are actually the lowest in last one year. So which orders are you talking?

Kishore Chatnani

As you know the cycle time for us, the shorter cycle time for any product is about close to 6 months, many of the orders are close to 2 years or some of the orders are even 3 years. So, we may have bought the steel when the prices were higher. So, for those projects, whenever the revenue comes in the margins will look the same. But whatever we have booked in the last 6 months or so, and which have been purchased recently or the materials will be purchase going forward, there you will see higher margins coming. So, there will be a lag of a couple of quarters before you see higher margins coming.

Viraj Mehta

Sure Sir, last thing is, we as investors find it difficult to comprehend that when a company only does one segment or a few products with much lesser technological tie-up and capability than us make significantly higher margin than us probably like 3 times the margin than us, but we on a base of INR 6,000 crores revenue and with the technology and the capability that we have, make very low single-digit margin and I've seen the factories and stuff, it is just very difficult to comprehend for an investor. Why that is the case?

Aditya Puri

No, so we've explained to you earlier that we have faced challenges in the project business. We have explained that to you and the latest one was the uptick in commodity pricing. So, we are also becoming careful in booking orders. We started doing a lot of new things together, like FGD and material handling. We learnt the tricks of the trade and hopefully things will improve after few quarters.

Viraj Mehta

Sir, just my last question. Sir, our plant in Philippines, any progress on that? Because we are almost losing INR 15 crores-INR 20 crores a quarter on that plant in our P&L. Any update on that, when can we expect something with that capital allocation to go right?

Aditya Puri

Yeah. So, we've started construction on the plant this month and we expect to finish it in 12 months' time. During this period, we are likely to get good offers from somebody to buy the plant. If we are successful in that we'll sell the plant, otherwise, we should start running the plant. So, in 12 months' time, we would hope either the plant is sold, or we have started to run the plant.

Viraj Mehta

Thank you so much, Sir. And best of luck.

Aditya Puri

Thank you.

Moderator

Thank you, Sir. We have a question from Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal

Yeah. Good afternoon, gentlemen. Sir, can you quantify the extent of the loss in one export order in the manufacturing division which you mentioned?

Aditya Puri

We won't be able to quantify that but all we can say that it's not something that is inherent in the manufacturing division. So, it's a one-off loss.

Deepesh Agarwal

The entire impact has been taken in this quarter or you expect that impact to be also booked in the forthcoming quarter?

Kishore Chatnani

Entire impact of loss on that particular order has been taken in the June quarter.

Deepesh Agarwal

Okay. Sir, just with the commodity price now settling. Where do you see the manufacturing business margin going forward in a normalized scenario?

Aditya Puri

It will improve significantly. I can't give you figures, but it will improve. It should be between 8% and 9%.

Deepesh Agarwal

8% and 9%, okay. Sir, one long-term question, if I look at your company since FY19, your order book has been flat, your revenues has also been growing in a very-low single-digit despite the end market growing very well. I recollect you were looking to grow the business in double-digit. So, what is your thought process to take it back on the growth track?

Aditya Puri

So, in manufacturing, we are increasing our order book by doing very marginal investments, like debottlenecking. In one particular area, we invested some amount of money to increase the output. We were hit by COVID and the project businesses were becoming increasingly difficult because of COVID conditions, labor shortages at sites. So, we become a little careful in taking that sort of business, but we can hope to grow next year onwards.

Deepesh Agarwal

Okay. And, Sir, for the Philippines project, how long do you expect that losses to continue? And is there a kind of any impairment loss that you envisage given there is a lot of delays out there?

Aditya Puri

We expect that if the plant gets sold, it should get sold at a reasonable value and there should not be a loss. Once we've started construction and, in a few months, when people can see actual progress on the ground, we think that there's going to be a lot of inquiries for the plant. And if we have to run the business, it's quite a profitable business to run. So, either way, we don't see a huge financial impact.

Deepesh Agarwal

Okay. And lastly, if you can share the borrowings number on a consolidated basis and of which how much pertains to Philippines and the sugar business?

Kishore Chatnani

The total borrowing on a consolidated basis is INR 1,194 crores that as of 30th of June, 2022. This includes Philippines group of companies borrowing of about INR 273 crores.

Deepesh Agarwal

Okay. Sir, but till FY1819 you were in actually more of a net cash kind of a position. So, when would you attribute this increase in our leverage level?

Kishore Chatnani

So, as we have been mentioning, there are some large duration projects that we are doing, some of them particularly as you know, the PSU projects, including the FGD projects. So, some of them

have even got extended by a few months because of the COVID related disruptions. So many of them are going to be completed by the first quarter of next year. So, as many of the payments are milestone linked, so our borrowings should be coming down progressively over the next year.

Deepesh Agarwal

Okay, sure. I'll get back in the queue.

Moderator

Thank you, Sir. We have a question from Digant Haria from Green Edge Wealth. Please go ahead.

Digant Haria

Hi Sir, In response to Viraj's question, you mentioned one thing that, in the last 3-4 years, we entered a lot of new areas like material handling or FGD, where there was a learning curve. So, if you could just throw a more light on that particular thing that, in those new areas, at the time of bidding, we thought we'll make 5% margins, but maybe we would have ended up making 2% margins. And, going ahead, can these areas also start reporting, say 6%, 7%, 8% margins because we've learned how to handle those areas better?

Aditya Puri

So, there's been a combination of two or three things. One is that site work has proved to be more difficult than we had envisaged, inherently the site conditions. Secondly, there was a COVID situation, I'm not saying it's behind us, but life is back to normal. But over the last year or so, there are acute labor shortages at site. It may be because of the migration, when COVID happened, they have found work closer to their native places. It's becoming very difficult to get labor. Getting labor is probably one of the single most important challenge.

And thirdly, in this sort of work, there is a lot of back and forth, which happens between Isgec and the company we are working for. And so, it's COVID at our end, it's COVID at their end because they cannot approve our drawings, there are delays there, as a result of which projects just get elongated. So, we have learnt that we have to allocate more money for the site, we have to do engineering faster, so that we have to account for delays at the customer end. So, and if there is a lot of similar site work that's involved in relation to the value of the project, we may not bid for it. So, these are some of the learnings that have actually occurred to us. So, it's mostly on the site work-related activities. There is nothing very significant in terms of engineering or procurement per se.

Digant Haria

Got it. Sir, would it be right to summarize this that, mainly when we had a large kind of an order expansion in 2018-2019. Maybe we were not fully prepared for it and that is why we are seeing this whole working capital expanding, margin shrinking, and all that; and maybe now in the next cycle, you will be far better prepared and probably return back to, those old days when our working capital used to be very low, we used to be cash rich company and 6-8% margin is what we used to post, even when the cycle was not so favorable.

Aditya Puri

Right. So, we hope that there will be improvements because we are learning, and we are consolidating.

Digant Haria

Right, Sir. My second question is a data question that, in that INR 7,700 crores of order book that we have, how much of those long duration, low margin or slow-moving project would still be sitting there?

Kishore Chatnani

So, most of the orders which relate to the project's business, they are longer duration. So even today, if you look at the project business orders, they are about INR 5,600 crores on a standalone basis.

Digant Haria

Okay. I get that. Sure.

Kishore Chatnani

But so, there are orders when they started, they were 36 or 39 months, and we have already crossed 24 months. So, the recent orders that we are booking are at the most 20-22 months, some of them are even 14-15 months.

Digant Haria

Okay. So, we used to say over last 4 or 5 quarters that there are some fixed price contracts in slow moving projects, which are impacting the margins working capital both. So, I am mainly

referring to those, that part of that INR 5,600 crores of projects business and by maybe when do they run off completely so that the impact that we see is only of the new order book where we have better margins?

Kishore Chatnani

So, this is what I was referring to earlier, when I said that some of the FGD projects are going to close in the next 10, 11, 12 months. And of course, milestone payments are there. So that money will be released as those milestones are achieved. And we are hoping, our borrowing is going to come down substantially over the next one year

Digant Haria

Got it. Sir, that June 2023 could actually be a point for us where working capital goes down and probably Philippines will also start, so some improvement in the balance sheets can start happening from there?

Kishore Chatnani

Yes. Certainly, on the balance sheet side, on the borrowing side, certainly.

Digant Haria

Got it. Thank you so much and all the best for the coming year. Thank you.

Kishore Chatnani

Thank you.

Moderator

Thank you, Sir. The next question comes from Avadhoot Joshi from Newberry Capitals. Please go ahead.

Avadhoot Joshi

Hi. Good afternoon. Thanks for the opportunity. Three questions. First, in the manufacturing segment, what's our capacity utilization?

Aditya Puri

Capacity utilization, going forward we see about between 95% and 100%.

Avadhoot Joshi

And this is including the debottlenecking that we have done, right?

Kishore Chatnani

Yeah.

Avadhoot Joshi

Okay. And about second thing, in the presentation you have given geography wise split 90% to India and 10% to global. So, going further, and as you mentioned in the opening remarks, that there are inquiries for export order. Do you see this geography wise split changing and how would be the trajectory going further? That I would like to know.

Aditya Puri

We are hoping and we are bullish on the fact that this percentage will move towards exports. Exports will increase because now travel is allowed, our people have started moving. We've got some orders also. But we think that export order book will build up progressively.

Avadhoot Joshi

Understood. And lastly on the EPC side you said, major money will come in from Q1 FY24. But do we expect any payments which is milestone linked to come in this year?

Kishore Chatnani

Payments are going to be progressive, as there are various projects under execution at different stages. Not all of them require a lot of working capital. So, as I mentioned earlier, our borrowing is going to go down over next 1 year.

Avadhoot Joshi

Okay. But there payments progressively coming into this year also? That's correct understanding, right?

Kishore Chatnani

Our cash flow is fine. In Isgec if you see standalone, the borrowing is not very heavy, and we don't expect it to go up.

Avadhoot Joshi

Understood. Thank you. That's it from my side and all the best.

Moderator

Thank you, Sir. Next question comes from Khadija Mantri from Sharekhan. Please go ahead.

Khadija Mantri

Hello, Sir. In the last quarter, we had mentioned that the Company plans to complete some of its PSU orders in the first quarter of FY23. So, that has not happened. So, now, is there any risk to the margin estimate that we had earlier, maybe internally. You had not disclosed or what are the expected margin in FY23? Also is there has been any change in the margin expectation? Since we have already burned our hands in PSU orders, because the payment terms were not good. So, I wanted to know whether we will be bidding for more PSU orders in future and whether the terms and conditions have changed now, because now, we are done with COVID.

Kishore Chatnani

Ma'am, I don't think we mentioned any specific orders getting completed in this Q1, because the longer duration orders, particularly those FGD orders are scheduled to get completed closer to next year, Q1. And secondly, on the PSU orders, yes, PSU's have payment terms which are milestone linked and therefore they are not the same payment terms that we would agree with for private customers. Because PSUs are investing a lot and we are bidding for those orders as well. So, we will continue to bid for PSU orders, but we'll always keep in mind what is the cash flow likely to be and if that in case there is a negative cash flow, we cost that when we bid for that.

Khadija Mantri

Okay. Sir, also we had given sales guidance of 5% growth in FY23. So, are we maintaining it or there an upside risk to it?

Aditya Puri

There's still 3 quarters to come. So, we'll be able to give you more accurate figures next time.

Kishore Chatnani

As you can see, the orders are there in hand and execution on the manufacturing orders, obviously depends on us. On the project orders the execution depends on us, but it also depends on the customers and how the customer side is progressing. But we continue with the same view as earlier.

Khadija Mantri

Okay, Sir. And what about the CapEx guidance, it also remains the same?

Kishore Chatnani

The CapEx that we are implementing BPR led SAP. So, there is a CapEx of close to INR 20 crores on that. On the manufacturing side we should be doing about INR 15-20 crores. So closer to INR 20 crores this year. So, roughly the CapEx should be about INR 40 crores this year.

Khadija Mantri

Okay, Sir. That's all from my side. All the best. Thanks.

Moderator

Thank you, Ma'am. The next question comes from V P Rajesh from Banyan Capital Advisors. Please go ahead.

V P Rajesh

Thanks for the opportunity. Just one clarification on the expenses that we are making for the overseas plant. So now that you have started the construction, should we assume that this amount will be more capitalized, and it will not show up in the P&L going forward?

Kishore Chatnani

You're right. In terms of the interest, yes, it will be capitalized. In terms of the other smaller expenses, they will continue to be booked as revenue expenditure.

V P Rajesh

So, can you quantify what that split will look like going forward?

Kishore Chatnani

So, the typical expenditure on every quarter, which is for the plant maintenance and salaries and insurance and all of that is close to around INR 4-5 crores a quarter.

V P Rajesh

So, that will remain in the P&L and the rest will move into the balance sheet Capital work in progress, right?

Kishore Chatnani

That's right.

V P Rajesh

Okay. My second question. I did not understand when you answered about the slow-moving projects. You said, the book is around INR 5,600 crores of those projects. And is it fair to conclude that, you said that it will get completed most likely by Q1 FY24.

Kishore Chatnani

I'm sorry if we are not being clear. we did not use the word slow moving, it was used by somebody else.

V P Rajesh

Well, we know what you are talking about, right?

Kishore Chatnani

No. So, let me clarify that. Different projects have different timescales for completion. So, typically, for example, when we book a sugar plant order or a distillery order, that is typically 12-14 months. When we book a large boiler, it can be close to 18-20 months. Some of these FGD projects can be 36-39 months. So, there are various projects going on at the same time at various stages of

completion. So, we did not say at all that there are slow projects. What I was mentioning was in the context of milestones being achieved and milestone payments being collected. So, I mentioned that there are some large projects in which there are large milestone payments to be collected. And those milestones are expected to be achieved and the projects completed over the next one year's time.

V P Rajesh

Right. Let me just rephrase my question. So, the projects which are in the order book that is currently being executed, which are, either low margin, or which have had significant time delays. What is the proportion of that in the order book?

Kishore Chatnani

They are less than half of the projects order book.

V P Rajesh

So out of INR 5,600 crores of order book, you're saying around INR 2,300 crores are of this type, that I just described?

Kishore Chatnani

Actually, I don't have a classification like that, or I don't look at it like that. But that's why I gave you a general sort of answer, if you notice how many projects, we have booked in the last one year, those are all projects which are booked at times when we already knew steel prices were up and so on. So, the older projects, which are going to be completed over the next one year, they are less than half. That's all I can say at the moment. I don't have a classification like the one you're looking for.

V P Rajesh

Right. Well, it will be helpful if we can share that information, because then we at least have some idea of how long this underperformance for a company likely will continue, which is historically, as other investors have said, has had a very stellar track record before this cycle. So just trying to understand that. Thank you.

Moderator

Thank you, Sir. We have a question from Ayush Jalan, an individual investor. Please go ahead.

Ayush Jalan

Hi. Good afternoon. Thank you for the opportunity. I had a couple of questions. Is it possible for you to share what percentage of your order book currently is having PSU orders?

Kishore Chatnani

It's already there. So, it's about 42%.

Ayush Jalan

And are we on track to get this down to 25% level as guided earlier?

Aditya Puri

So, it depends on the scenario, what orders are coming in the market at that point in time. But we have been careful in taking PSU orders in terms of cash flows and margins, more in margins than in cash flows. But we cannot say at this point in time that we will move to 25%. It depends upon how the market is behaving.

Kishore Chatnani

Actually, it's also a function of, we have mentioned earlier, that we would like export orders to go up as a percentage.

Ayush Jalan

Yeah. So, the guidance for 20% for that?

Kishore Chatnani

Yes, that's what we're working on. But it's taking its own time. And we would like to reduce the PSU order book to 25-30%.

Ayush Jalan

All right. And you were mentioning that FGD orders generally take about 36-39 months and for an answer to a previous question you also mentioned that most orders are now 22-24 months. So, does this mean that you all are trying to avoid taking FGD orders now or have your learnings

made it a little more efficient now in taking these orders? Could you please explain a little bit about that?

Kishore Chatnani

Let me just talk about 36-39 months. In fact, I was reading a report earlier today from the Ministry of Power which said that typically FGD orders are taking between 40 and 47 months, even though when they were ordered by the power companies' they were 36-39 months. So, some of that extension of time can be attributed to COVID related disruptions as well. But we are bidding for the FGD orders. And though they may be smaller in value and smaller in timeframe. There are learnings, and we hope to do better on those orders than earlier.

Ayush Jalan

So, we should see higher margins on these orders going ahead?

Aditya Puri

Hopefully, yes.

Moderator

The next question comes from Mr. Manish Goyal, an individual investor. Please go ahead.

Manish Goyal

I have a few questions, Sir. On manufacturing, when I look at the consol and standalone segment, the resultant subsidiary numbers have declined significantly. So, if you can probably share some light as to like we haven't booked revenues on Hitachi Zosen JV or if you can please share?

Kishore Chatnani

So, in this particular quarter, we have not booked revenues on the Hitachi Zosen JV, particularly because there are some equipment which are manufactured and ready to ship. But end customer has paid us the advances maybe closer to 90% of the money but he has not been able to pick it up.

Aditya Puri

Because of reasons the customer has not been able to pick up the equipment. So, he has paid us close to 90% of the value of the equipment, it is lying with us, but it has not come in the

revenues. So, that is the reason why there is a very low revenue coming from Isgec Hitachi Zosen this quarter. However, for the year as a whole, as of now things are good.

Manish Goyal

Okay. So, ideally, do we expect that from current quarter onwards we should be probably seeing more normalization revenue booking?

Aditya Puri

Yes, Q2, Q3, Q4, it should be more normal because this equipment should also get shipped.

Manish Goyal

So, Sir, like at Hitachi we're seeing QoQ order book has been growing very strongly. So, if you can guide what kind of revenue growth and margins, we can see Hitachi in current year?

Sanjay Gulati

In Isgec Hitachi Zosen, we spent a good amount of money for expansion of the area we have and thereby increase the capacity substantially. So, that is the reason that the order book has increased now and in the coming quarter's revenue would be increasing.

Manish Goyal

So, any growth number what we can probably look towards in the current year?

Kishore Chatnani

Actually, we don't want to mention a particular number, but it will certainly be much higher than the last year's number.

Manish Goyal

Okay. And also, on inquiry pipeline and which areas are we seeing inquiries and what are the size of inquiries? Because lot many companies have been talking very positively on the outlook. So maybe if you can give your perspective for both domestic and international market?

Kishore Chatnani

So, on the domestic side, we were talking about Hitachi or Isgec Heavy Engineering?

Manish Goyal

Both, Sir, ideally.

Kishore Chatnani

I'll first ask Sanjay to talk about Isgec Hitachi Zosen, then I'll answer about Isgec Heavy.

Sanjay Gulati

There are a good number of projects coming up in the domestic sector. There is a lot of investments coming up by various refineries, the three large refineries going in for expansions at the moment. Also, there are some export projects also moving towards getting life. But the biggest growth is in the domestic sector for the kind of equipment Isgec Hitachi does.

Kishore Chatnani

I think we can now talk about Isgec Heavy. So, inquiry pipeline is pretty good for almost all our lines of business, including export inquiries as we've been mentioning to you, most of the projects business exports happen to developing countries. And inquiry base for exports has picked up. Order finalization is still slow. Few orders have been finalized in the last quarter; we have also mentioned in our presentation about them.

But there is enough inquiry, and our teams are working hard to book export orders. On the domestic side, just a number, some inquiries are budgetary, some inquiries are serious and about to be decided soon. So, there are more than INR 10,000 crores of inquiries. The situation is pretty normal. As Mr. Puri mentioned, we are being selective about what orders we're going to book.

Manish Goyal

Okay, sure. And Mr. Chatnani what was the order inflow in the current quarter and in 6 months?

Kishore Chatnani

INR 1,331 crores for the Group.

Manish Goyal

Okay. And the console order book when we mention, it doesn't include Hitachi JV, right?

Kishore Chatnani

It does.

Aditya Puri

It doesn't include the sugar mill and ethanol, but it includes all the engineering business.

Manish Goyal

So, Hitachi we take the entire order book into the console order book?

Kishore Chatnani

Yes, because we own 51% of the company, just like all the other JV. And so that order book is nearly INR 800 crores as of 30th June for Isgec Hitachi Zosen.

Manish Goyal

Sure. And the Cavite biofuel under construction plant, the loss number what we see of roughly INR 23 crores. This is not entirely cash loss, right? It may include certain translation loss as well.

Kishore Chatnani

It is largely foreign currency translation loss because the Philippine peso has moved more than the rupee has moved.

Manish Goyal

So, there could be some INR 4-5 crores of quarterly loss. So, this INR 23 crore may include only INR 4-5 crore actual loss and rest would be translation. Is it right way of looking at it?

Kishore Chatnani

That is right. But because the plant construction is starting only this quarter, it has started only this month actually. So, INR 4-5 crores was going forward from this quarter onwards.

Manish Goyal

Okay. And this transition loss would be captured in P&L in the other expenses? When we look at the consolidated numbers, where would it get captured under other expenses?

Kishore Chatnani

You are right. It's in under other expenses.

Manish Goyal

Yeah, because our console PBT is lower than standalone. So, I'm just wondering, it is one of the effects would be translation loss of INR 23 crores.

Kishore Chatnani

That's right.

Moderator

Thank you, Sir. We have a follow up question from V P Rajesh from Banyan Capital Advisors. Please go ahead, Sir.

V P Rajesh

Yeah. Thanks again. Just 2 more questions. What is the customer concentration in our order book? If there is 1 single large customer that has 10% of the order book?

Aditya Puri

Yes, I would say these 2 major FGD orders are under the umbrella of NTPC. Otherwise, IOCL order is also there, which would be about 10-12%. But not any one in the private sector.

V P Rajesh

So, if it's okay to assume that these 3 orders are roughly 30-35% of the order book?

Kishore Chatnani

Actually, no that's not correct. Because part of the order gets executed also. The orders when they started, they were large, what is left unexecuted. In the case, Indian Oil, it will be more than 10% our total order book, close to 10%. And in the case of NTPC, it will be less than 10%.

V P Rajesh

Okay. So, let's say they will be around 25-30% combined the order book, right? That's sort of the good assumption.

Aditya Puri

No, NTPC, we're talking about both the orders combined. So, a good assumption would be about 18-20%.

V P Rajesh

Right. Understood. Okay, that's very helpful. My second question is, what is the weighted duration of your order book?

Kishore Chatnani

We haven't actually worked it out ever, So, we like to think that we have enough orders in hand to keep everybody all our divisions busy for the next 18 months.

V P Rajesh

Okay. All right. Thank you so much. All the best.

Moderator

Thank you, Sir. The next question comes from Ms. Aashna from ICICI Securities. Please go ahead, Ma'am.

Aashna Manaktala

Thank you for the opportunity. Sir, for distillery unit, we delivered a 7% EBIT in the quarter. Would that be something we can look forward in the coming quarters as well?

Kishore Chatnani

Yes, that is about normal. The distillery started commercial production only in the beginning of January, though it was commissioned in last December. And we are running at full capacity. And we have the orders in hand from the oil companies. So typically, we should be seeing INR 50-55 crores of revenue every quarter. And so, 7% or so should be the normal number.

Aashna Manaktala

Okay, And in the previous quarter, you had mentioned that you are also looking for some expansion for the same. So, what is the status for that and what you could also talk about the opportunity side that we are trying to capture?

Aditya Puri

No. So we were talking about the expansion to do more ethanol production. We've got our first line of approval from the central government, now we're going to state government for approval. The investment involved is not going to be very high, it's going to be less than INR 10 crores of investment and we hope that maybe in about 8-9 months the expanded capacity will come into play

Aashna Manaktala

Sir, if you could mention the capacity addition what amount in terms of KLPD that we are looking for?

Aditya Puri

So, right now it is 100 KLPD and we are hoping that we should be able to reach anywhere between 135 and 145 KLPD.

Aashna Manaktala

Got it. And what if you could also throw some light on the export orders outlook as too because you mentioned in the previous quarter also that you are targeting, and now that traveling has also

begun. So, from what geographies and what key user industries are that we're trying to tap the export markets specifically?

Aditya Puri

So, exports come from a variety of products, they come from presses, they come from boilers, they come from sugar machinery, some comes from castings also. And typically, the markets are all over Southeast Asia, Africa, Central America sometimes Europe also.

Aashna Manaktala

Okay. And our EPC margins are quite strong in the quarter. So, what has led to improvement in our EPC margins and going forward in the coming quarters what do you think the sustainable number we can look at?

Aditya Puri

So, it depends, Aashna, a lot on the mix between the old orders and the new orders, what is getting built at that point in time. We do hope that we'll be able to and then the margins should look decent, but we'll let you know as they come. We are not seeing any major surprises as of now.

Aashna Manaktala

Okay. Good to know. And one last question, you mentioned that our manufacturing capacity is now almost 200%. So, apart from the debottlenecking that we've already done. Are we looking for any other capacity addition or how are we going to handle the increase in order book ultimately?

Aditya Puri

So, we are waiting to see if this increase will be sustained. Also, we are looking at some methods whereby with low investment we can increase the output. We are looking at that. It may not be the most efficient way of doing work, but we are looking till demand stabilizes, and we are confident of the demand stabilization. We are looking at some methods to increase output.

Aashna Manaktala

Okay. And, you mentioned that the CapEx of INR 40 crores is what you're looking at for current year. If you could also give the breakup as to where this CapEx would be for anything specific?

Aditya Puri

So, as Kishore has just mentioned about INR 20 crores CapEx is for the new IT system that we are implementing. We should get implemented by the end of this financial year. Another INR 20 crores is what we are looking at investing at various places in the manufacturing businesses to debottleneck and to increase production.

Aashna Manaktala

Got it. Okay, Sir, that's it from my side. Thank you so much.

Moderator

Thank you, Ma'am. There are no further questions. I now like to hand over the floor to the management for closing comments. Over to you, Sir.

Aditya Puri

Thank you. I would like to thank you once again for joining this call today. I appreciate your interest in Isgec Heavy Engineering. I look forward to interacting with you again during the next quarter. Thank you once again.

Moderator

Thank you, Sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

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1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.