ISGEC HEAVY ENGINEERING LTD.
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www.isgec.com

HO-425-S Date: 03.06.2022

To,
Bombay Stock Exchange Ltd.
Registered Office: Floor 25,
P J Towers, Dalal Street,
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 Scrip Code: 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 and year ended March 31, 2022

1. Please find enclosed the Transcript of the Investor Conference Call organised by the Company on Monday, May 30, 2022 at 15:30 hours (IST) with regard to discuss the financial performance of the quarter and year ended March 31, 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 intimation 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
Digitally signed by Shweta Agrawal
Date: 2022.06.03 21:23:14 +05'30'

(Shweta Agrawal)
Company Secretary

Encl: As above

“ISGEC Heavy Engineering Limited
Q4 FY2022 Earnings Conference Call”

May 30, 2022

ANALYST:	**MR. RAHUL MODI – ICICI SECURITIES LIMITED**
MANAGEMENT:	**MR. ADITYA PURI – MANAGING DIRECTOR - ISGEC HEAVY ENGINEERING LIMITED** **MR. S. K KHORANA – EXECUTIVE DIRECTOR & COMPANY SECRETARY – ISGEC HEAVY ENGINEERING LIMITED** **MR. KISHORE CHATNANI – WHOLE-TIME DIRECTOR & CHIEF FINANCIAL OFFICER - ISGEC HEAVY ENGINEERING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the ISGEC Heavy Engineering Q4 FY2022 Earnings Conference Call hosted by ICICI Securities. 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 "*" and "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Modi. Thank you and over to you, Sir!

Rahul Modi: Thank you Seema and good day everybody. On behalf of ICICI Securities, I would like to welcome all for the Q4 FY2022 Earnings Conference Call of ISGEC. The management is being represented by Mr. Aditya Puri - Managing Director. Mr. S.K. Khorana - Executive Director and Company Sectary and Mr. Kishore Chatnani – Whole-Time Director and CFO. We will start the call with the opening remarks on the results and the outlook by Mr. Puri post that we can have the Q&A session. I would like to hand over the call to Mr. Puri for his opening remarks. Thank you, Sir! Over to you.

Aditya Puri: Good afternoon, everyone and thank you for joining us on our quarterly earnings conference call. I hope that you and your loved ones are all well and safe. We look forward to a fruitful interaction. We have uploaded our presentation on BSE, NSE and on our own website www.isgec.com earlier today. There is also much more information about our business on our website. Let me now talk about our consolidated financial results for the quarter and full financial year. The total consolidated income for Q4 of FY2022 is Rs.1,597 Crores which is about 2% lower compared to Rs.1,627 Crores for Q4 of FY2021. The total consolidated income for 12 months FY2022 is Rs.5,512 Crores as compared to Rs.5,477 Crores to 12 months of FY2021. The consolidated EBITDA for Q4 of FY2022 at Rs.108 Crores is however low compared to Rs.131 Crores for Q4 of FY2021. The consolidated EBITDA for 12 months of FY2022 at Rs. 325 Crores is also lower compared to Rs.505 Crores for 12 months FY2021. The consolidated profit after tax for Q4 of FY2022 is Rs. 39 Crores as compared to Rs. 68 Crores for Q4 of FY2021. The consolidated profit after tax for 12 months FY2022 is Rs.115 Crores as compared to Rs.253 Crores for 12 months of FY2021. The profitability has been sharply lower in the EPC segment, it is also being lower in the manufacturing segment and in the sugar segment. The EPC segment has been adversely impacted by steep increase in material cost due to increase in commodity prices mainly steel and aluminium also nickel and copper. Time and cost overall in EPC projects due to the impact of COVID related disruptions coupled with shortage of skilled manpower, sharp increase in freight cost both for purchase of materials and supply of goods to the customer, normal employee cost in increments as you know last year, we had salary cuts. The lower profitability on the EPC segment will continue for some time as the fixed price longer duration orders presently under execution were booked before the increase in commodity prices. Profits in the manufacturing segment are lower because of some impact of commodity prices and normal salary costs. Profit in the sugar segment is lower due to lower quantity of sugar sales i.e 16.19 lakh quintals in FY2022 versus 21.76 lakh quintals in FY2021 as there was lower export.

Since we are carrying good stocks, the profits will come in as and when the sugar is sold. Regarding sugar exports as you know last year, we exported a good quantity of sugar under the government's export subsidy scheme. This year there was no government export subsidy scheme and we being located very far from ports find it uneconomical to export sugar in comparison to sugar factory located in coastal states and near to the ports. We have however contracted to export small quantity of 10,800 metric tons of sugar which is being exported in the current financial year. The consolidated profits have been adversely impacted by interest and other costs in the ethanol plant under construction in Philippines.

I will now talk about the order booking, the consolidated order booking for Q4 of FY2022 is Rs.1,442 Crores as compared to Rs.147 Crores orders booked in Q4 of last year. The consolidated order booking for 12 months of FY2022 is good at Rs.5,608 Crores compared to RS.4,863 Crores for 12 months in last year. Consolidated orders in hand as on 31st March 2022 are Rs.7,322 Crores against Rs.6,765 Crores as on 31st March 2021. The order book position is satisfactory. Of the consolidated order book 77% is for the project business and 23% for the product business. The order book includes Rs.1,113 Crores for export orders which is just over 15%. The order book for ISGEC Hitachi Zosen is also good, it has Rs.644 Crores of orders as on 31st March 2022. The overall market demand trend is encouraging and the enquiry position is very good, firm enquiries and budgeted enquiries exceed Rs.10,000 Crores and export enquiries have also picked up. As the order book is well placed and we are going slow on order booking in view of the high volatility in commodity price and being choosy in booking new orders and focusing on orders which offers reasonable margins. Some customers delayed placement of new orders in view of the high commodity price leading to higher product or project cost. Order booking and profitability in orders may improve given the softening of steel prices earlier this month after the government-imposed export duty on steel. As you know the new 100 KLPD ethanol plant at Saraswati sugar mills has commenced commercial production in December 2021. The plant is operating at full capacity. Regarding the cavitebio-fuels ethanol plant in the Philippines we will be starting construction in June 2022 and expect to complete the plant by June 2023.

Information technology upgradation by implementing SAP. In order to improve our internal processes, controls,project management, costing, resource planning and financial reporting. We are doing a business process re-engineering - BPR led SAP S4 HANA ERP system implementation this will also prepare the company for undertaking a larger scale of business. We selected and engaged one of the big four consultants M/S Ernst & Young (E&Y) as consultant to conduct the BPR assignment and configure and implement this SAP software. We plan to go live on the new system by 1st April 2023.

My colleagues and I will be happy to answer any questions.

Moderator: Thank you, sir. We will now begin with the question-and-answer session. We take the first question is from the line of Digant Haria from Green Edge Wealth. Please go ahead, sir.

Digant Haria: Hi! Sir, first question is on the products division, if you look at the last four years or five years, we are roughly between Rs.1,500 Crores to Rs.1,700 Crores of revenue in the products division for the full year. So, it is five year and we have not been able break out of this Rs.1,500 Crores - Rs.1,600 Crores band and now at least we have been some uptake in the order book. So, could you help with what are the key sectors which have to do well for this products division to do well. One or two key sectors which you had a lot of order books coming from?

Aditya Puri: I will answer that question, the product business derives its orders from quite a diverse sector and I would speak about them. It does so from oil and gas, petrochemical, and fertilizer industries for the process plant business, then it does from the automobile sector and then to some extent from boilers and castings from cement plants, soda ash plants and turbine business whether it is hydro turbine or steam turbine.

Digant Haria: Okay, so the largest would be automobile and this whole oil and gas and refinery and these sector that would be the two largest sectors?

Aditya Puri: Yes, they are larger sectors.

Digant Haria: Okay Sir, and in terms of product portfolio how has it moved in the last four – five years, because even there we are facing margin pressures and do we have the capacity to go to the Rs.2,000 Crores of revenue in the next one or two years in the product division?

Aditya Puri: Maybe in the next three years that visibility should be there. We have made investments in one of our foundries and expanded the capacity which should give an incremental output of about Rs.70 Crores and we are also planning to do marginal investments to increase the turnover.

Digant Haria: Okay, sir secondly, we have been following this company for around eight years now and before the Philippines incident happened, we always used to have 8 or 9% of our revenue in working capital generally margins would be between the 6 to 8% range. So, versus that backdrop of our history, our performance on all the parameter is relatively at the lower end whatever we have seen from Isgec the last eight – nine years. So, within the company that needs a lot of improvement because of the environment health significantly improved in terms of ordering and yet we see that on most of the parameters we are stuck at the lower end of our historical range in working capital or margins or execution of the orders also. That is from side. Thank you.

Moderator: Thank you, sir. We take the next question from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Sir, I think if you can answer Digant's question that would be one of my questions anyways?

Aditya Puri: Would you like to repeat that question once?

Viraj Mehta: The question was if you were to look at our working capital as a percentage of sales and our margins we are at a much worst stage then what historically we have done over last eight years. Whereas if you were to compare ourselves to some of the other product players and there are plethora of them but across the businesses if you look at them all of them have significantly improved the margins this year and are guiding better margins next year compared to last year and the year before. But we are not seeing any of that, can you say why that is happening, why is there such a vast difference in that?

Aditya Puri: In the EPC business we have taken a big hit because of the commodity price hike. There is also cost overruns because of COVID the projects are taking a much longer duration to complete. We have got Price variations in most cases from the clients, but they do not compensate us with the increased cost because of COVID or other reasons. So, these projects that we are doing are longer duration projects than what we have been typically doing. The PSU orders are much longer, the payment terms are more stretched, the cash flow is not as good as in the private sector because it is all bunched up towards the end of the project. This year we hope that lot of our PSU projects that have taken on adverse terms, most of them would be completed or will be substantially completed by the end of this year. We do think that the working capital position would improve significantly. These projects are also being delayed because the government or the PSUs have been delaying giving approvals because obviously, they also face the same problems as we faced in Covid. So, we were in some ways forced to go slower. They have agreed in most cases to increase the time period but at the same time the cost at the sites have been mounting. We have now become very selective in taking orders, we are taking orders with better margins now and we could have taken a lot more orders, but we have reduced the order booking.

Viraj Mehta: Right, going forward is it fair to assume that the margins that we did this year both in the product division and in the EPC division, is the worst behind us? When do we return to the profitability that you mentioned a year back, when do we return to high single digit 9-10% EBIT margin number for the whole company?

Aditya Puri: I think we will be able to give clearer picture by Q3 because we will be sure about the completion of a lot of projects and the commodity price hike which have happened. All the commodity price have softened, if this continue to remain the way they are then there may be an improvement, but by Q3 we will definitely be able to give you a much clearer picture.

Viraj Mehta: Right, and sir we have essentially lost Rs.40 Crores this year on our ethanol plant in Philippines, if I look at the segmental numbers and on a quarterly basis, we will continue to loose Rs.12.5 Crores – 13 Crores not even counting cost of capital and my sincere request to the management and I am sure you are looking at it, is to have some resolution to it. We cannot be having so much capital tied up and lose Rs.12 – Rs.13 Crores a quarter on a plant which is under construction?

Aditya Puri: You are absolutely correct, now that the COVID situation has improved and Philippines is allowing Indians to come in, our teams have been there, the contractors have been selected and in June we are starting activities on the ground to complete the plant and we hope that within one year the plant will be operational. In the meanwhile, we have enquiries from some people who might be interested in buying the plant we are evaluating it, but we are working to complete the plant.

Viraj Mehta: Right, and sir if the prices of all the commodities steel, copper everything put together where they are today, and we have taken fixed price contract even what we had taken in last three to six months we would have taken it at a slightly higher margin or higher commodity prices. Is it fair to assume that if now the commodity prices keep falling like we lost a lot of margins because of fixed price, if now the commodity prices fall a lot of those fixed price gains should come to us?

Aditya Puri: They should but we will evaluate and let you in the next quarter. Theoretically what you are saying is correct and we also feel it will happen because the commodity prices have come off very recently and prices of commodities like copper and aluminium have an indirect effect on electricals and other items. So, we are waiting for the market to absorb the reduction and reduce the prices, so we will have a clearer picture shortly.

Viraj Mehta: Sure, and sir last one question, on Rs.5,500 Crores topline that we did, we have Rs.7,500 Crores order book. What do we expect on a rough page to the growth this year?

Aditya Puri: This year the growth should be about 5%.

Viraj Mehta: Rs.5800 Crores.

Aditya Puri: Yes.

Viraj Mehta: Okay, thank you sir and best of luck.

Moderator: Thank you. We take the next question from the line of Prakshi Choudhary from Ace Capital. Please go ahead.

Prakshi Choudhary: Hello! Sir, good evening. I would like to know your outlook on FGD segment with government making some big announcement related to it recently and if you can give some colour on the kind of opportunity you are likely to capture in this segment?

Aditya Puri: The market is still there for FGDs, and we are continuing to bid for FGDs, we have seen some private sector interest in FGDs there is still some government interest in FGDs. The market is lumpy because they are high value projects so, if you get one order its high value, but if you do not get it, it is not that high value. But given the market we do hope to book some orders in the next few quarters.

Prakshi Choudhary: Okay, Sir I would also like to know your plans on the ethanol business?

Aditya Puri: Our own ethanol plant or setting ethanol plants for others?

Prakshi Choudhary: Sir, your own?

Aditya Puri: Our own ethanol plant is working in full capacity and ever since we got our approvals in December and the plant is running very well both in terms of capacity utilization which is close to 100% and in terms of efficiency too.

Prakshi Choudhary: Okay, that is it from me. Thank you so much for taking my questions and wish you good luck for the coming quarter.

Moderator: Thank you. We take the next question from the line of Abhishek Kale an individual Investor. Please go ahead.

Abhishek Kale: Sir, what is the peak stock for our ethanol production at Saraswati Sugar Mills. Is it sugarcane juice or b-heavy?

Aditya Puri: B-heavy.

Abhishek Kale: Okay, and are there any plans for capacity expansion of the ethanol plant at Saraswati Sugar Mills?

Aditya Puri: We are looking at potential capacity expansion which should allow us to produce more per day, but the season may get shorter, however the economics will improve with that. The total that we produce in a year may remain the same, we have applied for an extension but whatever we do we are not going to make very heavy investments into it. We are looking at some approvals coming by December-January whereby we may be able to produce more ethanol, but it is going to be very marginal investments.

Abhishek Kale: Okay, sir if I may ask, this is the question regarding the Philippines plant, like you said there are some enquiries that we have received, how much ballpark do you expect, with and when that plant gets sold, or in the previous Con-Call you have also indicated that if operationally we think that it would be more profitable operating with ourselves, we would rather consider that as well. Where are we on that, I would like to know the ballpark number first?

Aditya Puri: We have no number, but we can only say we expect the valuations to increase considerably once the plant is completed or we can demonstrate that the plant is going to be completed soon.

Abhishek Kale: Okay, and sir in the next three quarters how much do you think would be our average cash burn in order to set up the plant or we have accounted for that already?

Kishore Chatnani: We have a loan sanction from a bank in Philippines, we will not be putting in any money from here. The loan will be taken by the Philippines company on its own books and will be guaranteed by ISGEC, but we will not put money from here. Insignificant amounts of money will be sent.

Abhishek Kale: Okay, thank you. That is, it from my side and best of luck for the upcoming quarters. Thank you.

Moderator: Thank you. We take the next question from the line of Digant Haria from Green Edge Wealth. Please go ahead.

Digant Haria: Sir, you mentioned that because of the slow-moving order and especially in the public sector orders we are facing challenges in margins, working capital. What would that be as a proportion of the total order backlog of Rs.7,300 Crores?

Kishore Chatnani: Today our PSU order book is about 39% of our total order book and due to COVID we are thankful to get orders from the PSUs because export orders had totally dried up, but we are hoping that the export orders proportion in our order book increases, of course better margin also and the PSU order book should come down to over 25-30%.

Digant Haria: Right sir, but when you said 39% is the current order book would all that PSU orders qualify us fixed rate, low margin, high working capital orders?

Kishore Chatnani: They are not fixed price, most of them have a price variation clause and price variation clauses work both ways which means if the commodity prices go up you get higher realization and if they go down the realization go down. But there almost all of them high working capital requirement because PSU payments only come on achievement of milestones.

Digant Haria: Right, and assuming a normal world not like COVID what would be the proportion of this public sector orders be for ISGEC in the coming year because as far as I remember before 2018 these numbers used to be significantly lower than 39-40% also?

Kishore Chatnani: That is right, that was because we were having more than 20% as our export order book and typically the PSU order book used to be 20% odd and the balance was coming from private sector. There is something good about the PSU they always have the budget and the money to give orders. But they are very demanding customers in terms of low prices and cash flows.

Digant Haria: Right, but they are demanding that is fine, but will we be as company see a reduction in this order book as our export order book and domestic order from private sectors go up?

Aditya Puri: If private sector investment increases, we would look at decreasing the share of PSUs but in the last year or year and a half the PSUs are also becoming more liberal in their payment terms. The FGD orders that we took in round1 or round2 had much worst payment terms than what they were in the last few rounds.

Digant Haria: Got it, sir. That is, it from side. Thank you.

Moderator: Thank you. We take the next question from the line of Miss Aashna from ICICI Securities. Please go ahead.

Aashna: Hi! Sir, my first question is on the Philippines plant. What is the total investment that we have done on the plant till date?

Kishore Chatnani: We have a large outstanding amount from that company. We acquired it after the dispute with the customers then we acquired it and it became our subsidiary. After acquisition we have given out loans of about Rs.50 Crores to sustain till now but further investment is going to be done out of a loan to be taken by that company there in Philippines.

Aashna: And what is the expected amount of the loan for the balance construction that is pending?

Kishore Chatnani: It is about Rs.180 Crores.

Aashna: Okay, and sir out of which Rs.50 Crores outstanding amount how much is courtesy opex cost and how much would be towards the capex of the plant?

Kishore Chatnani: It is largely opex, for salaries or upkeep of the plant, for insurance.

Aashna: And as per your recent order book your railway order book has been on a declining trend for past couple of quarters. So, what would be the reason for that, is it that the ordering has been slow, or we have been bidding less over there?

Aditya Puri: As we said earlier, we have become very selective in taking orders, so wherever we see the competition intensity to be high and the prices to fall because as you know this is all through the tender route there is no premium for better quality or better execution. We are staying away from those projects.

Kishore Chatnani: Also, it has come down because we have completed certain projects recently.

Aashna: Okay, sir then going forward are we seeing any opportunities once things stabilize and once the commodity prices also stabilize, any opportunity from the Vande Bharat plan that has been?

Aditya Puri: Opportunity from?

Aashna: Sir, Vande Bharat program.

Aditya Puri: Yes, we do see some opportunities, we are evaluating them and there could be opportunities but as and when the opportunities come, they have to be very critically evaluated.

Aashna: Okay, sir and in the ethanol distillery that you mentioned you started operating in previous quarter. So, what would be the average capacity utilization for the full quarter was that 100% for that entire quarter?

Aditya Puri: It was 99.9 something.

Aashna: Okay, and when can we expect it to break even, currently it is posting losses?

Kishore Chatnani: It posted a loss in the first quarter because of the lower sales and booking all the full interest and depreciation and so on. But it should be profitable from the current quarter.

Aashna: Okay, and sir if you can repeat the order intake number for the quarter?

Aditya Puri: Order intake for the quarter on a consolidated basis was Rs.1,442 Crores.

Aashna: Okay, and sir similar numbers for Hitachi for this quarter and for March 2021?

Kishore Chatnani: I have the total orders in hand for Hitachi, but I can get in a couple of minute. I will answer it after the conference.

Aashna: Okay, and sir overall how is the profitability looking for Hitachi, last time you had mentioned that some high complex machinery equipment is what Hitachi working also if you could throw some light on that?

Aditya Puri: We expect the profitability this year to be much better. It was hit last year partly because of commodity pricing and partly because of shipping disruptions which is in the scope of the customer, customers could not lift lot of the cargos. This year it certainly looks better than last year.

Kishore Chatnani: ISGEC Hitachi Zosen, the order booking for this quarter was Rs.70 Crores and for the full year it booked Rs.520 Crores of new orders compared to that for the last year their order booking was Rs.250 Crores. So, order booking in the current year is twice of what it booked in the previous year.

Aashna: Okay, got it sir. Thank you so much.

Moderator: Thank you. We take the next question from the line of Mr. Harish from HS Investments. Please go ahead.

Harish: Thanks for the opportunity. I basically have two questions. What was the total capex of last year and could you share the capex plan for the coming year? Another question is if you can please elaborate on your technology tie ups plus UCC Environmental USA which was mentioned in the investor presentation and how it will be helping us in future?

Aditya Puri: Total capex this year was Rs.56 Crores in ISGEC Heavy Engineering standalones and the coming year would be probably in the same range. As far as the UCC tie up is concerned, this is another technology, in India there are some thermal plants based on coal as their fuel, their residual life is not very high, so for them there is this alternative technology, which is low on investment, low on capex but high on opex. If the residual life is less in the plant and going to shut down in the next five years or six years, then the plants prefer to go the route of lower capex and higher opex it makes more sense to them. So, we have tied up with them and we have got our first orders for such a plant.

Harish: Okay, thanks sir.

Moderator: Thank you. We take the next question from the line of Aditya Mehta from Dynamic Investments. Please go ahead.

Aditya Mehta: Thank you so much for taking my question. I am sorry I joined the call a bit late, but just had one question. Sir, I wanted to know the reason for no export of sugar last year and would like to know the outlook for the business for next year or let us say for next two years?

Kishore Chatnani: Let me talk about export of sugar. As you know in the earlier years the central government was giving us subsidy for exports. During the current year there was no subsidy for exports. So most of the sugar that is getting exported out of India is being exported from the coastal states of Maharashtra and Karnataka. We, as you know are situated in Haryana, we are about 1500 kilometres from the nearest viable port. Our realization on export was not working out to be good compared to the export prices that can be offered by the coastal states. So, that is one reason., The second is most of the sugar that is exported from India was raw sugar, we could have chosen to make raw sugar, but we can only make at the beginning of the season or end of the season. Since we did not have visibility of viable prices, we did not make raw sugar. The sugar that we make goes to largely three countries, Afghanistan, Sri Lanka, and Indonesia. You saw political difficulties in Afghanistan and in Sri Lanka, they were not really buying our kind of sugar. There was not so much demand for our sugar but nevertheless there are pockets in the world, some countries where our sugar is very popular. In spite of our prices being higher we have booked some orders of about 10.800 tons. Mr. Puri talked about it when he spoke and those have been dispatched this year. In any case while quantity of sugar sold is less, our realization has been good, and we are carrying a large stock of sugar and the profits will come in when we sell that sugar.

Aditya Mehta: Okay, sir so the profits which are talking about maybe in next year or let us say two years over that period?

Kishor Chetnani: During the current year sir, sugar is sold every month so current year.

Aditya Mehta: Alright, understood. Thanks, I will get back to the queue. Thank you so much.

Moderator: Thank you very much. We take the next question from the line of Kriti Sood from NVS Research. Please go ahead.

Kriti Sood: Thank you for taking my questions. Sir, I wanted to understand what is the outlook of margins for next year. Is the worst of margin pressure due to raw material price inflation behind us?

Aditya Puri: In the beginning we said the commodity inflation was unprecedented, but prices have cooled down last 15 days or so, we are still evaluating it and in the next call we will have a clearer picture. As of now the commodity prices have cooled down and how long it stays this way. We will get back to you.

Kriti Sood: Okay, alright. My next question is what percentage of your orders are fixed price and could we see more margin pressure in future because of similar orders booked earlier?

Aditya Puri: We have about 60% fixed price contracts and on that because of the commodity pricing softening there would be an impact. But we will evaluate everything and we will let you know in the next quarter or the quarter after that.

Kriti Sood: Alright, if I may ask one more question, we have seen that exports have been falling since four-five years, what is the reason for the same and your outlook?

Aditya Puri: Last two years because of COVID there was no travel, and we could not meet the customer physically since the last few months travel has commenced and this situation on exports order booking this year will be better.

Kriti Sood: Okay, thank you sir. That is, it from my side.

Moderator: Thank you. We take the next question from the line of Mr. V. P. Rajesh from Banyan Tree Capital. Please go ahead.

V P Rajesh: Thanks for the opportunity. As a new investor I am trying to understand the investment we have made in the Philippines plant, so what is the loan outstanding as on date including the Rs.50 Crores you mentioned earlier on the call and how much more will you be investing this year, earlier the loan amount that you are getting from the Philippines bank to complete the plant. Just trying to get an idea of what our cost going to be in this plant.

Kishore Chatnani: Since you are a new investor, nevertheless you may have read that this was a plant we were constructing for a customer and we had disagreement with the customer and in arbitration case and so on and in the end, we ended up acquiring the plant and the assets. For the assets came with certain loans on them, so the loan is roughly equal to $36 million USD, but it is in Peso and it is from a local development bank in Philippines but is roughly equal to $36 million USD and the loan that we are going to be taking now going to be something like Rs.180 Crores equivalent to $24 million.

V P Rajesh: Okay, $36 million plus $24 is $60 million USD is the cost plus whatever you have spent on the opex side that you mentioned earlier, right that is the total?

Aditya Puri: In fact, there is also the earlier investment by the earlier owners of the plant and is valued much more than that.

V P Rajesh: Okay, would you say that whatever you have put in so far is the market value higher than what you have put in or you think the returns on this plant will be significantly higher and therefore continuing this capex makes sense. From this I understand why would you not look to exit this or look for some kind of JV etc so then our financial exposure is limited?

Kishore Chatnani: Actually, sir what you are saying, we have been trying for it, but because of COVID there was a lot of poor economic sentiment in Philippines and therefore in spite of our trying we could not get a reasonable price. Also, we have realized that any prospective buyer if he sees the plant at the stand still, or plant under construction at a standstill, he was to offer a lower valuation than if the plant is being constructed or completed. That is how we are proceeding towards completing the plant, and we think to answer your first question, the valuation is substantially higher than that. Mr. Puri also mentioned that work can now start in Philippines because now Indians are now allowed to travel, since April our teams have been there, we are proceeding to start construction of the plant in June.

V P Rajesh: Right, and this will take about a year to complete and then my question is that how long will it take from there on to see positive EBITDA?

Kishore Chatnani: We have examined the economics and we are willing to run the plant but we are also open to sell the plant if we can find a buyer at a reasonable valuation.

V P Rajesh: I understand that, but I am just trying to understand let us say you will spend now Rs.180 Crores to construct that plant and then before it starts turning positive cash flow for us, we will have to invest some more. So, I am trying to understand what that amount could be in fiscal year 2024?

Kishor Chatnani: We believe that this Rs.180 Crores will largely cover the investment required. It will require working capital loans to operate the plant which we can hope to get from Philippines banks.

V P Rajesh: Okay, thank you so much. That is all I have.

Moderator: Thank you Mr. Rajesh. We take the next question from the line of Mr. Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Thank you for the opportunity. For Saraswati ethanol plant next year what kind of EBIT margins, we can expect at full utilization/

Aditya Puri: EBIT margins on the ethanol plant?

Anurag Patil: Yes, sir.

Aditya Puri: EBIT margins are already positive.

Anurag Patil: Now, how much can you expect margins next year?

Aditya Puri: We are still working for the fact that what is the maximum that we can subject to there is some approvals that we expect in the course of the next month. What is the maximum we can run the plant and what is the alternative, we also for instance looking at whether we can use juice to make ethanol? We will give you a figure next time, but the EBIT margins are not bad.

Anurag Patil: Okay, sir you said FY2023 you are expecting 5% in the revenue growth. Am I correct in listening that? So, if you run the ethanol plant for four quarters at least Rs.100 Crores incremental revenues will be added, so rest of the segments are you expecting only Rs.100 and Rs.150 Crores/

Kishor Chatnani: This 5% was talked about in terms of ISGEC, as a consolidated entity. It was not about the sugar plant or ethanol plant.

Anurag Patil: Yes, that I understand, sir but at consolidated level 5% growth when you translate to Rs.250 Crores odd or something. Then ethanol plant only can contribute at least Rs.100 Crores incremental?

Kishore Chatnani: That is not the right way to look it sir, because when you use B-heavy molasses we are consuming sugar which is normally produced and sold but taking that sugar and putting into the ethanol that is not the right way to look at it. Additional turnover that has come from ethanol maybe 70% of it is coming from by reduction of the sugar revenue.

Anurag Patil: Yes, sir understood. But given the strong Rs.7000 Crores order book still I feel that guidance is very conservative.

Kishor Chatnani: Many of our orders are longer duration orders. The typical order execution cycle particularly for the project business can be 24 months to 30 months, 35 months.

Anurag Patil: Okay, understood. Thank you very much, sir. That is, it from my side.

Moderator: Thank you. We take the next question form the line of Mr. Nishit from Aequitas Investments. Please go ahead.

Nishit: Good evening, sir and thank you for this opportunity. Sir, most of my question are answered one thing I notice that our standalone manufacturing revenue is around Rs.460 Crores which is higher than our recent numbers. Is there anything one off or can we sustain these numbers, going forward?

Kishore Chatnani: The manufacturing revenue depends on what equipment and machines get delivered. In manufacturing we are following the sale of goods method for accounting. On an annual basis if you see, on a standalone manufacturing is about Rs.1,295 Crores, we can expect this to grow a bit, but quarter-to-quarter is not the right way of looking at it.

Nishit: Okay, understood sir, and sir lastly what is the outlook for Eagle Press?

Aditya Puri: Eagle did go through a difficult time because of first COVID and then because its main customers are automobile, it is based on automobile output and because of the chip shortage in North America the production of cars was not going up. But the outlook has improved recently, and we have booked some orders and we expect to book some good orders, the enquiry flow is good. So, this year should be much better than the last year.

Nishit: Okay, sir thank you.

Moderator: Thank you Mr. Nishit. We take the next question from the line of Mr. Mihir from Desai Investments. Please go ahead.

Mihir: Thank you for the opportunity. Sir, I have few macro questions, starting with sugar industry. As we see that the Brazil crop is going to come which was in a deficit last season will this impact the realizations practically for sugar. I just wanted to understand from your end, sir.

Kishor Chatnani: The international market has been deficit for the last few years that is why you are seeing that the export prices realized by India are decent. The international dynamics are that in Brazil the mills have a lot of flexibility into making sugar or making ethanol. They can switch very easily and given today's position of higher oil prices one would expect Brazil to divert more sugar contents towards ethanol and that will leave a good opportunity for India to export sugar.

Mihir: Okay, so we are on a safer side is what I understand?

Kishore Chatnani: Yes, if you notice the government is saying that India has exported this year already about 82 lakh tons of sugar and the government has now restricted exports to 100 lakh tons the government wants to leave enough sugar in the country for the next two months consumption. But next year's production is expected to be high and therefore it will be enough to cover the domestic requirement and India has established itself very well in the export market for the last three-four years the exports have been going up. So, we should see good exports from India.

Mihir: Yes, sir my next question is around then defence sector. In Make in India, India is doing aggressively in boosting the defence sector, so do we have any opportunity to participate or some pockets which we can explore in this sector?

Aditya Puri: As far as defence is concerned, we continue to get small value orders periodically for defence and these orders are for sophisticated manufacturing. But we are not entering into any long-term tie up for one particular product because then the gestation period is high, and the market is also uncertain. We are not betting on the defence sector in a big way but opportunistically when there are enquiries, we quote for them, and we are getting some success there.

Mihir: Sure, sir. Lastly, I just wanted to ask on our revenue mix. The current revenue mix which is comprising of manufacturing EPC and sugar going forward after two to three years down the line will you see this mix changing or it will be in this range only?

Aditya Puri: We are trying to look for opportunities to increase the manufacturing and we are planning to make marginal investments as Mr. Chatnani gave the figure for last year's capital investments, this year also we might do some investments to increase the manufacturing base. As far as the projects business is concerned because in the projects business a lot is outside our control because raw material is a very major component of the total contract price. We will be selective, we ourselves looking at cost ready carefully and we would be selective in taking orders where the margins are reasonable.

Mihir: Yes, sir. Best of luck and thanks for answering the questions. If I have more questions, I will join the queue.

Moderator: Thank you Mr. Mihir. We take the next question from the line of Miss Aashna from ICICI Securities. Please go ahead.

Aashna: Thank you for the opportunity again. Sir, just one clarification I needed, in the beginning of the call you mentioned that order intake expectation growth for FY2023 is close to 5%, is that correct?

Aditya Puri: I think Mr. Chatnani spoke about 5% was the increase in revenue.

Aashna: Okay, and sir FY2024 we can have book about?

Aditya Puri: We will give you guidance later on that.

Aashna: Okay, no problem. Thank you so much.

Moderator: Thank you Madame. As there are no further question, I would now like to hand over the conference to the management for closing comments.

Aditya Puri: Thank you very much to all our investors and potential investors for joining this conference. Wishing you all the best. We will again touch base roughly three months from now. Thank you very much.

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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