



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

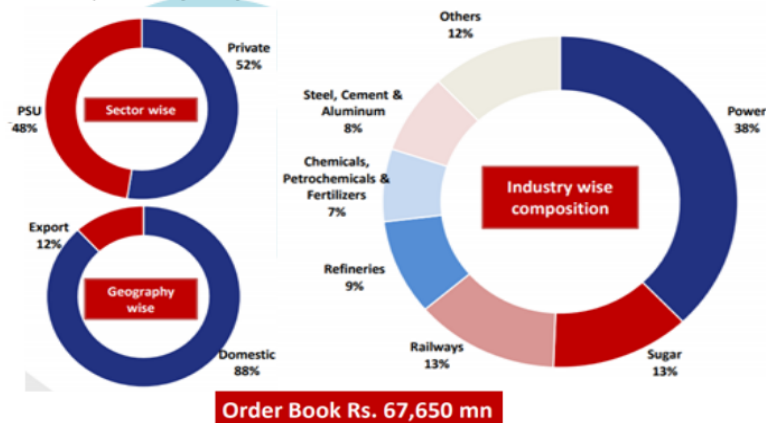
ISGEC HEAVY ENGINEERING

WHAT WE LIKE

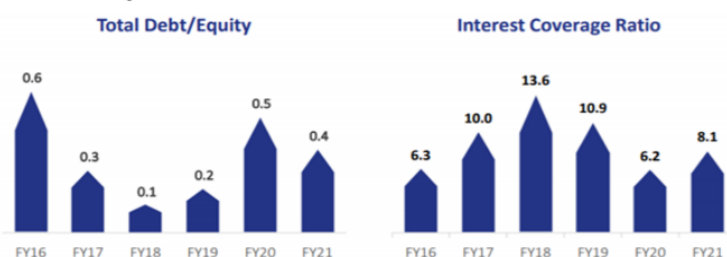
SURVIVED TO THRIVE

ISGEC went through an upcycle from 2003 to 2011 with exceptional CAGRs of 33% for revenues, 43% for EBITDA, and 22% for PAT in the period. It also survived the subsequent down cycle from 2012 to 2021 with growing at a decent pace with CAGRs of 5.5% for revenues, 11% for EBITDA, and 13.45% for PAT in the same period. This highlights the company's great ability to bide its time and maintain decent growth even in down cycles.

DIVERSIFIED ORDER BOOK & BUSINESS VERTICALS



NO EQUITY DILUTION & CONSERVATIVE DEBT



CONTINUED FOCUS ON NICHE TECHNOLOGIES

ISGEC has many industry partnerships with global Engg players like Bosch, Sumitomo, Siemens, BHI FW, and others for technologies to make specialized equipment like different types of boilers, heat exchangers, high strength auto components, etc. This focus on niche technologies and partnering with global players for technology sharing and development has been the main driver for gaining domestic leadership in its segments.

WHAT WE DON'T LIKE

RAW MATERIAL PRICE INFLATION

The private sector projects that account for 52% of the order book are fixed contracts where the company is not able to pass on any raw material price increases. Thus, the company is vulnerable to raw material price inflation risk in its private sector Projects.

SLOWDOWN IN END INDUSTRIES

This is not an avoidable risk for any company. If you are catering to an industry, you will naturally depend upon the growth prospects of that industry. However, they have mitigated it well by having a diversified order book. Still, ISGEC is vulnerable to a slowdown in critical end industries like power.

ORDER BOOK GRANULARITY

ISGEC makes far better margins on the manufacturing orders than the EPC orders. If the order mix tilts too much in favor of EPC contracts, we can expect the blended margin to suffer and denting the financial performance of the business.

DELAY IN SELLING OF CBPI ASSETS

The company acquired Cavite Biofuel Producers (CBPI) in the Philippines as a dispute settlement with the company CBPI for a token amount of \$100 in 2019. ISGEC has been looking to sell CBPI and its assets but has gotten no buyers yet. It is keeping the plant in running condition. The capital invested in this project will remain stuck as long as CBPI remains unsold.

PERFORMANCE OF SUBSIDIARIES/JVS

Due to the diversified nature of the operations, IGSEC works with subsidiaries and JVs. They extend loans & BGs to these subsidiaries for smooth running of the operations.

We at SSS believe that if any of these subsidiaries or JVs get stuck in their business, it will have a problem for IGSEC.

