# ISGEC Heavy Engineering Ltd. – Investment BUY Call Thesis

**Dear Bajaj Capital Investors,**
**New Stock Recommendations for BUY on 7 Oct 2026**

**CMP -> 905**
**Buying Range -> up to 925**
**Upside Potential-> 16%**
**Investment Horizon -> 9 to 12 Months**
**Target price -> 1050**

## 1. Business Overview & Multi-Disciplinary Engineering Architecture :-

**1. Integrated Heavy Engineering and Manufacturing Core:** ISGEC Heavy Engineering Limited is a multi-disciplinary heavy engineering enterprise with over 93 years of operational history, having evolved from a sugar manufacturing firm incorporated in 1933 into a global capital goods power. Engineering products and turnkey projects now drive 87% of consolidated revenues. The company's core manufacturing segment produces custom-engineered capital equipment including high-precision mechanical, hydraulic and servo presses, pressure vessels, heat exchangers, alloy steel and iron castings, boiler tubes, process skids and liquefied gas containers. Manufacturing activities are supported by specialized fabrication plants in Yamunanagar, Rattangarh, Bawal, Muzaffarnagar and Dahej.

**2. Turnaround-Focused Turnkey Industrial Projects (EPC):** The Industrial Projects segment functions as a complete turnkey plant builder, executing fixed-price engineering, procurement and construction (EPC) contracts. This division leverages ISGEC's in-house manufacturing capabilities to deliver high-efficiency industrial boilers, power plants, flue-gas desulphurization (FGD) systems, electrostatic precipitators, bulk material handling infrastructure and industrial wastewater treatment units. Crucially, ISGEC manufactures its own core boiler pressure parts—including drums, water-wall panels and superheaters—providing a competitive cost advantage and quality control over pure-play EPC peers.

**3. Global Footprint and Subsidiary Network:** ISGEC maintains a widespread global presence, exporting equipment to over 99 countries across six continents. Overseas manufacturing and engineering capabilities are bolstered by Eagle Press & Equipment Co. Ltd. in Canada (serving North American automotive and industrial markets) and key domestic joint ventures including Isgec Hitachi Zosen Ltd. and Isgec Titan Metal Fabricators Pvt. Ltd. While the company maintains a legacy sugar and ethanol business through Saraswati Sugar Mills Ltd., engineering operations remain the central growth and value creation driver.

## 2. Core End-User Industries, Application Sectors & Growth Proxies :-

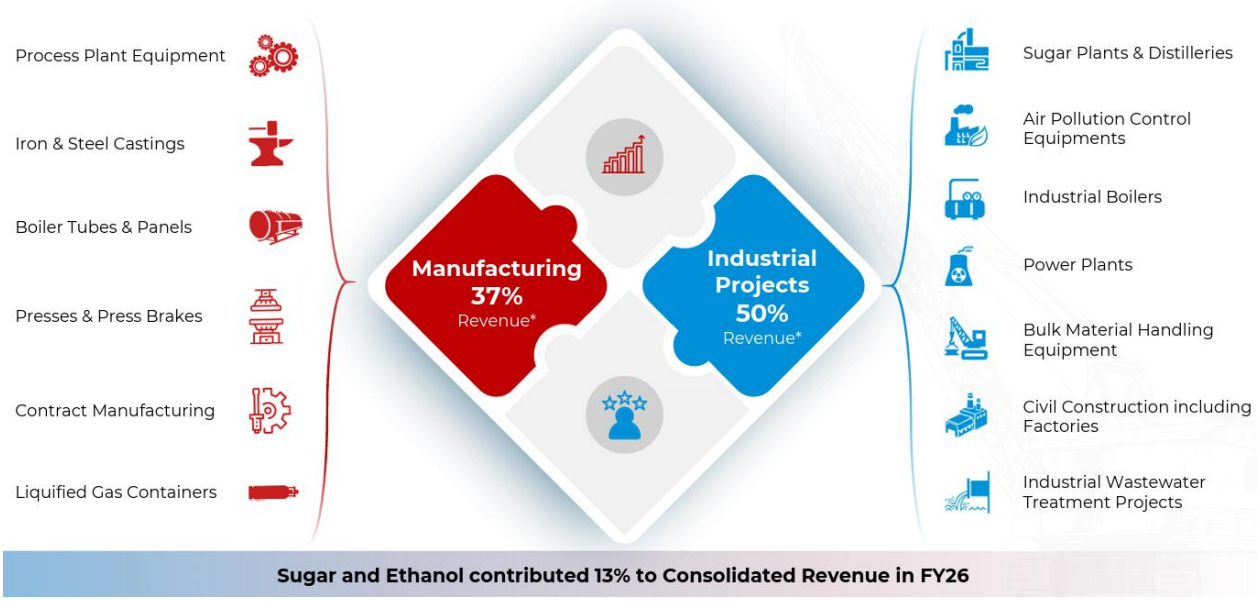
**1. Key End-User Sectors and High-Value Applications:** ISGEC's product portfolio serves a wide array of end-user industries. Its press machinery division supplies carmakers and tier-1 component vendors for automotive body forming, alongside forging and defense applications. The process equipment and boiler businesses supply oil refineries, fertilizer plants, petrochemical complexes, thermal power stations and chemical process units with reactors, column and high-pressure steam generators. In addition, its specialized foundry operations cater to soda-ash plants, steam turbines, valve manufacturers and heavy mining machinery.

**2. Geographic Coverage and SEZ Export Infrastructure:** ISGEC's commercial footprint spans 99 countries, with an expanding footprint across Southeast Asia (Vietnam, Thailand, Indonesia), the Middle East, Africa, North America and Latin America. To service global demand with cost competitiveness and tax efficiency, the company operates dedicated

Special Economic Zone (SEZ) capacity at Dahej, Gujarat. This facility manufactures process plant equipment and modular skids for direct export to multinational engineering and process licensors.

**3. Strategic Proxy Sectors Driving Medium-Term Demand:** The company's order pipeline and growth trajectory act as a direct proxy for global and domestic industrial capital expenditure. Key structural proxy drivers include India's national infrastructure and capital outlay budget (INR 12.2 lakh crore for FY27), defense capital procurement localization (75% earmarked for domestic vendors), thermal power additions (~80 GW required by FY32), clean energy transitions (green hydrogen, bio-CNG, nuclear power expansion) and global supply-chain diversification under "China Plus One" strategies.

## Diversified Business Model: -




## 3. Financial Performance Evaluation Across Recent Quarters & FY26 :-

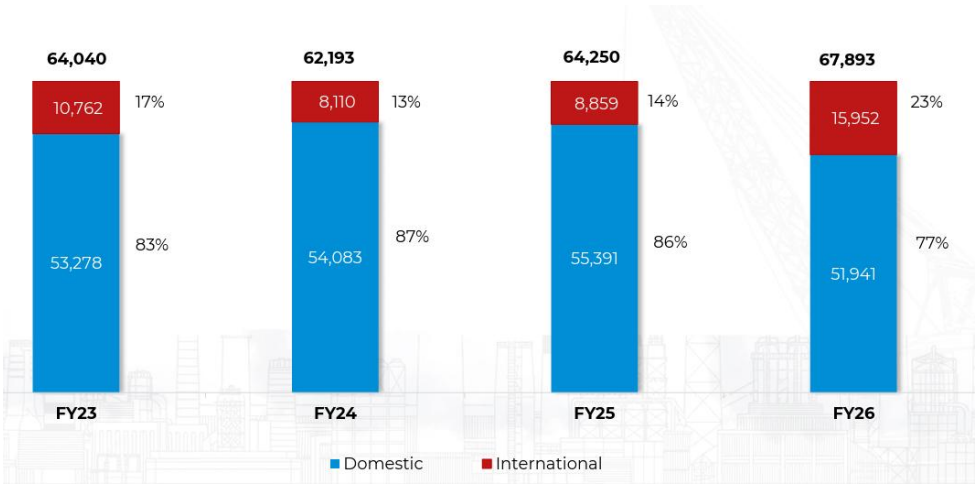
**1. Q1FY27 Topline Surge and Execution Velocity:** ISGEC demonstrated execution momentum in Q1FY27. On a standalone basis, total income expanded 51% YoY to INR 1,585 crore, while profit before tax (PBT) grew 10% YoY to INR 123 crore. Consolidated total income for Q1FY27 reached INR 19,935 Mn (INR 1,993.5 crore), representing a 45% YoY increase compared to INR 13,744 Mn in Q1FY26. Topline growth was driven by disciplined project execution schedules in Industrial Projects and a large customer-requested dispatch (~INR 130 crore) in the Manufacturing segment. Consolidated profit after tax (PAT) rose 31% YoY to INR 175 Mn (INR 17.5 crore).

| Metric (Consolidated in INR Mn) | Q1 FY26 | Q1 FY27 | YoY Growth |
|---|---|---|---|
| Total Income | 13,744 | 19,935 | +45.0% |
| Manufacturing Revenue | 1,371 | 2,018 | +47.2% |
| Industrial Projects Revenue | 4,764 | 7,966 | +67.2% |
| Consolidated PAT | 133 | 175 | +31.6% |

**2. Operating Margins and Segmental EBIT Trajectory:** Segmental performance highlighted strength in core engineering. Standalone EBIT increased 15% YoY to INR 157 crore in Q1FY27. The Manufacturing segment generated an EBIT margin of 11.3% on a consolidated basis (12% standalone), remaining in line with management's steady-state guidance of 12%–13%. Meanwhile, Industrial Projects EBIT margin improved to 5.25% in Q1FY27, up from 4.58% in FY26 and 4.8% in Q1FY26, reflecting the phase-out of legacy, lower-margin EPC contracts and a structural move toward technology-led, higher-margin project selection.

**3. FY26 Consolidated Financial Baseline and One-Off Accounting Impacts:** For the full year FY26, consolidated total income grew 7.1% YoY to INR 69,223 Mn (INR 6,922.28 crore). EBITDA rose 18.6% YoY to INR 6,713 Mn (INR 671.34 crore), with consolidated EBITDA margins expanding 90 bps to 9.7%. Reported FY26 consolidated PAT stood at INR 1,540 Mn (INR 154.04 crore). This net profit figure reflected a non-cash accounting catch-up depreciation charge of ~INR 170 crore following the accounting reclassification of the overseas Philippines ethanol asset (Cavite Biofuel) from "held for sale" back into continuing operations. Core operational earnings remained healthy.

## Revenue Diversification across Geographies: -




Note : Consolidated Revenue (in INR Millons)

## 4. Balance Sheet De-leveraging, Cash Conversion & Liquidity Strength :-

**1. Robust Cash Flow Conversion Ratios Across Business Cycles:** ISGEC demonstrates cash flow generation capabilities relative to reported net earnings and operating profits. Over the past three financial years, the company recorded cash flow from operations (CFO) to PAT ratios of **258%**, **33%** and **497%**, respectively. Similarly, its CFO to Operating Profit ratios over the last three financial years stood at **154%**, **39%** and **161%**, respectively. This conversion trajectory underscores high earnings quality, prudent working capital management and milestone-linked billing execution across capital engineering orders.

| Cash Flow Conversion Metrics | FY24 | FY25 | FY26 |
|---|---|---|---|
| CFO / PAT (%) | 258% | 33% | 497% |
| CFO / Operating Profit (%) | 154% | 39% | 161% |

**2. Substantial Net Borrowing Reduction and De-leveraging:** The company has delivered balance sheet de-leveraging while self-funding its ongoing capital expenditure programs. On a standalone basis, net borrowings decreased to INR 240 crore as of June 30, 2026, down from INR 381 crore as of March 31, 2026 and INR 408 crore as of June 30, 2025—representing a net cash position improvement of INR 140 crore in Q1FY27 alone. On a consolidated basis, net borrowings dropped to INR 304 crore as of June 30, 2026, compared to INR 476 crore on March 31, 2026 and INR 832 crore on June 30, 2025, marking an INR 170 crore debt reduction in Q1FY27.

**3. Working Capital Optimization:** Working capital dynamics have benefited from a deliberate operational strategy: selecting shorter-duration project contracts (maximum 2.5 to 3 years) with technological differentiation and favorable advance milestone structures. Additionally, cash flow realization from legacy NTPC flue-gas desulphurization (FGD) orders—where ~INR 250 crore in redemptions and ~INR 165 crore in retentions are being collected—continues to bolster liquidity without requiring incremental capex.

## 5. Board-Approved INR 502 Crore Capex Program & Revenue Expansion :-

**1. Bhartauli Machine Building Expansion Program:** To capture burgeoning demand in heavy presses and machine building, ISGEC is implementing a multi-phased brownfield/greenfield expansion at Bhartauli, Haryana. Phase 1 involves an investment of INR 73 crore, scheduled for operational completion in September 2026, offering an annual revenue potential of INR 225 crore. Phase 2 represents a major expansion of INR 218 crore, targeted for completion around late calendar 2027 / early 2028, adding another INR 375 crore in annual revenue capacity. Together, these investments will scale the Machine Building division's output from INR 400 crore to ~INR 1,000 crore annually.

**2. Dahej SEZ Skids & Modules Facility Expansion:** ISGEC is establishing a dedicated export-oriented process skids and modules manufacturing facility at Dahej SEZ, Gujarat, with an outlay revised to INR 110 crore (up from INR 87 crore). Phase 1 is scheduled for completion around May 2027, adding INR 160 crore in annual revenue capacity, while Phase 2 (slated for March 2028) will bring total incremental annual revenue potential from this facility to INR 275 crore. Shifting skids and modules production out of the constrained Rattangarh plant into an SEZ hub enables ISGEC to capture high-margin international orders.

**3. Steel Castings Capacity Enhancement & Group Facility Upgrades:** The Board approved an investment of INR 25 crore to expand steel castings capacity at the Muzaffarnagar foundry by 1,100 MT per annum by June 2027, complementing the existing 3,900 MT capacity which runs near 100% utilization. Across the group, Board-approved capex initiatives totaling INR 502 crore are under active implementation across presses, skids/modules, piping shops and foundries. When fully operational by FY29, management expects this total capex program to generate ~INR 1,200 crore in incremental annual revenue, expanding total manufacturing revenues from ~INR 2,500 crore to INR 3,600–3,700 crore at peak utilization.

## 6. Growth Catalyst 1 – Export Acceleration & Foreign Exchange Expansion :-

**1. Structurally Higher Export Intensity and Revenue Mix:** Standalone export revenue reached INR 385 crore in Q1FY27, accounting for ~25% of total income compared to ~15% in Q1FY26. For the full year FY26, export revenues more than doubled YoY to INR 1,169 crore (~22% of revenue) from INR 532 crore in FY25. Management explicitly confirmed during recent conference calls that this heightened level of export intensity is structural and expected to persist, driven by growing market share across global jurisdictions.

| Export Metrics Benchmark | FY25 | FY26 |
|---|---|---|
| Consolidated Export Revenue | INR 532 cr | INR 1,169 cr |
| Export Share of Standalone Income | ~14% | ~22% |

**2. Strong Export Order Book Inflow and Commercial Protections:** Export momentum is backed by fresh order wins. In Q1FY27 alone, ISGEC booked over INR 750 crore in export orders across Southeast Asia, Africa and Latin America. Export contracts carry commercial parameters: they are denominated in hard currencies (USD or EUR) with systematic forward cover, secured by confirmed Irrevocable Letters of Credit (LCs) and structured with milestone advance payments that keep projects cash-surplus. Consequently, an increasing share of international business expands gross margins and insulates the company from domestic working capital stretch.

**3. Automotive Press Expansion in Southeast Asia:** In the Manufacturing segment, ISGEC is capturing market share in Southeast Asian automotive hubs, including Vietnam, Thailand and Indonesia. The company's press technology—enhanced via licensing partnerships such as AP&T Sweden for hot-stamping and press-hardening lines—enables it to supply carmakers and component vendors transitioning to light-weighting and high-strength steel forming. This geographic expansion hedges against domestic automotive cycles while establishing a base of high-margin capital equipment sales.

## 7. Growth Catalyst 2 – Industrial Projects Risk Discipline & Services Thrust :-

**1. Strategic Pivot Away from Legacy Long-Cycle EPC Risks:** ISGEC has instituted a capital allocation shift in its Industrial Projects (EPC) division. Management has ceased bidding for long-duration, multi-year projects heavily weighted toward low-margin civil construction and site erection. The division now targets shorter-cycle contracts capped at a maximum execution timeframe of 2.5 to 3 years (33–36 months). By focusing strictly on scope where customers value proprietary engineering, thermal efficiency and process technology, ISGEC commands technology premiums while limiting cost overrun exposure.

**2. Turnaround in Projects Margin Trajectory:** This strategic repositioning is producing margin expansion in the projects division. Having posted an EBIT margin of 4.58% in FY26, the Industrial Projects segment delivered 5.25% in Q1FY27. Management has guided for FY27 project EBIT margins to reach 5.0%–5.5%, supported by the progressive completion of legacy contracts and the onboarding of higher-margin, technology-dense orders. The shorter execution cycle reduces working capital lockup, directly accelerating cash generation.

**3. Creation of Global Industrial Services Division:** To monetize its global installed base of over 900 industrial boilers, 85 power plants and process installations, ISGEC launched a dedicated business unit: Global Industrial Services and Solutions. Previously, aftermarket services, operations & maintenance (O&M), retrofits, modernizations, spare parts and predictive diagnostics (REACH 4.0 IIoT platform) competed for mindshare against large project bids. The new division provides dedicated sales focus and incentive alignment, targeting a doubling of the existing O&M order base over two years. As a high-margin business line, Global Industrial Services provides a recurring revenue stream.

## 8. Growth Catalyst 3 – Strategic Diversification into Defense, Nuclear & High-Tech JVs :-

**1. Contract Manufacturing Expansion into Defense and Heavy Equipment:** ISGEC is executing a contract manufacturing diversification strategy to reduce segment concentration. Its built-to-print operations at Yamunanagar provide customized manufacturing for global original equipment manufacturers (OEMs) across defense, mining, hydro and steel sectors. Key deliverables include repeat orders for 155 mm howitzer artillery components, high-wall surface mining machinery and massive hydro-power runner castings. This division diversifies the machine building business, which historically carried a ~70% exposure to the automotive sector.

**2. Nuclear Power Sector Bidding:** The contract manufacturing and process equipment divisions are positioned to participate in India's nuclear energy expansion, which targets 22.38 GW by 2031-32 and 100 GWe by 2047, including the rollout of Bharat Small Reactors (BSRs). ISGEC has submitted bids for critical equipment and structural packages in the nuclear power sector. Securing nuclear-grade fabrication certifications positions ISGEC within an entry-barrier market characterized by multi-year visibility and attractive margins.

**3. High-Performance Joint Ventures – Isgec Hitachi Zosen & Isgec Titan Metal**

The company's active manufacturing joint ventures serve as earnings growth drivers:

- **Isgec Hitachi Zosen Ltd. (51% JV)**: Specializes in heavy process equipment for global refineries and petrochemical plants. The JV reported FY26 revenue of INR 670.49 crore and PBT of INR 103.24 crore (up from INR 35.84 crore in FY25). Holding an order book of INR 889 crore as of Q1FY27 (68% export orders), it is targeted to achieve ~10% YoY growth in revenue and profits for FY27.
- **Isgec Titan Metal Fabricators Pvt. Ltd. (51% JV)**: Manufactures process equipment using reactive metals (titanium, tantalum, zirconium) and nickel alloys. FY26 revenue jumped to INR 100.65 crore (vs INR 35.24 crore in FY25), swinging to a PBT of INR 12.60 crore. Management expects FY27 revenue to scale further to ~INR 150 crore.

## 9. Growth Catalyst 4 – Operating Leverage, Margin Expansion & Working Capital Release :-

**1. Operating Leverage Operating Through Fixed-Cost Absorption:** ISGEC is approaching a point of operating leverage across its manufacturing footprint. As fixed costs associated with land, engineering overheads and administrative infrastructure are absorbed over a larger revenue base—moving manufacturing topline from ~INR 2,500 crore toward INR 3,600–3,700 crore as the INR 502 crore capex completes—operating margins will benefit from unit cost economics. Facilities like Bhartauli Phase 1 & 2 and Dahej SEZ Phase 1 & 2 are co-located or brownfield expansions designed for high revenue output per unit of capital invested.

**2. Margin Enhancement via Favorable Product Mix and Pricing Power:** Operating margins are structural beneficiaries of an evolving sales mix:

- **Manufacturing vs. EPC Ratio**: Manufacturing revenue—which yields higher EBIT margins (12%–13% guided range)—is growing faster than EPC revenue, shifting the consolidated margin baseline upward.
- **High-Value Technology Offerings**: In complex process reactors, reactive metal fabrication, servo presses and specialized alloy castings, ISGEC faces limited domestic competition and commands pricing premiums.
- **Procurement Risk Management**: To protect margins against raw material inflation (steel, nickel, alloy inputs), management enforces back-to-back material procurement immediately upon order booking, supplemented by standard contingency provisions built into fixed-price quotes.

**3. Liquidity Release via FGD Retention Money Collections:** A short-term cash catalyst centers on resolving legacy Flue Gas Desulphurization (FGD) project accounts. With legacy NTPC FGD contracts 99% complete, ISGEC is entering the cash collection and redemption phase. Over INR 200 crore of retention money has already been realized, with ~INR 250 crore in redemptions due in the March quarter and ~INR 165 crore in outstanding retention money expected largely by August 2026. This cash realization converts historical order book execution into free cash flow, providing liquidity to reduce short-term borrowings and support capex without external debt.

## 10. Short-Term Risk Factors & Headwinds – Geopolitical Volatility & Supply Chain Distortions :-

**1. Global Logistics Bottlenecks, Freight Hikes & Tanker Availability:** Despite strong underlying demand, ISGEC faces short-term operational headwinds stemming from global supply chain distortions. Geopolitical tensions in the Middle East and maritime route disruptions have driven spikes in international container and tanker freight rates, lengthened vessel transit times and restricted container/tanker availability. Because export orders account for ~25% of current revenue, ocean shipping delays can cause quarterly revenue recognition volatility when completed machinery dispatches are delayed due to shipping schedules.

**2. International Protectionism and US Tariff Policy Uncertainty:** Operating in 99 countries exposes the company to geopolitical risk, trade fragmentation and evolving tariff architectures. The potential imposition of protective tariffs, anti-dumping duties or import restrictions by key target markets—particularly the United States and North America—could alter trade competitiveness for heavy industrial equipment exported from India. However, ISGEC's ownership of Eagle Press in Windsor, Canada, provides a local manufacturing footprint inside North America, helping hedge against direct import tariffs on mechanical presses.

**3. Foreign Exchange Volatility and Sourcing Cost Pressure:** Export growth exposes ISGEC to foreign exchange volatility and currency fluctuations. While the depreciation of the Indian Rupee enhances price competitiveness against global bidders, unexpected shifts in emerging market currencies (across African or Latin American customer destinations) can create collection or execution risks. Furthermore, opportunistic freight pricing by shipping lines and cost inflation in specialized imported components (such as specialized alloy forgings or gas inputs) require constant hedging and contract pricing vigilance to protect operating margins.

## 11. Short-Term Risk Factors & Headwinds – Policy Uncertainty & Final BUY Rationale :-

**1. Regulatory Policy Risks and MoEF Notification Impact:** A short-term regulatory headwind occurred following the Ministry of Environment, Forest and Climate Change (MoEF) notification of July 2025, which restricted mandatory Flue Gas Desulphurization (FGD) installations to specific designated power plant categories. This policy alteration narrowed the total addressable domestic market for new utility-scale FGD systems. In response, ISGEC has redirected its environmental engineering division toward industrial bag filters, electrostatic precipitators (ESPs), dry/semi-dry FGD applications for cement and steel plants and sulfur-recovery units in oil refineries.

**2. Input Commodity Cost Inflation and Skilled Talent Scarcity:** Margin stability remains susceptible to sudden price volatility in industrial raw materials, including carbon steel, alloy steel, nickel and industrial gases. Price dumping or aggressive pricing strategies by Chinese equipment manufacturers in global markets also maintain pressure on basic machinery pricing. Operationally, scaling manufacturing capacity across multiple factory locations creates demand for specialized engineering talent, welder certifications and skilled shop-floor personnel—making human capital retention critical to executing project timelines without cost overruns.

**3. Concluding Investment Rationale for Medium-Term BUY Rating:** Despite short-term geopolitical freight distortions and regulatory shifts in legacy FGDs, ISGEC Heavy Engineering presents a medium-term BUY opportunity for an investment horizon of 9 to 12 months:

- **Strong Order Book Visibility**: Consolidated order book stands at INR 89,580 Mn (INR 8,958 crore) as of June 30, 2026, providing ~1.3x revenue visibility.
- **Structural Capex Execution**: The INR 502 crore capex program is scaling brownfield capacity across Bhartauli and Dahej SEZ, unlocking ~INR 1,200 crore in annual incremental revenue.
- **Margin Expansion & Cash Flow Strength**: Manufacturing revenue mix shift, export intensity (~25%), industrial project margin repair (target 5.5%), healthy cash flow conversion and debt reduction (consolidated net debt down to INR 304 crore) provide fundamental support.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team