



Isgec Heavy Engineering

88th Annual General Meeting Transcript

S.K Khorana, Executive Director and Company Secretary:

Good morning everybody. I am the company Secretary and welcome everybody in the meeting. We have 112 shareholders joined to the call and so the quorum is complete. Notice for the AGM along with annual accounts and other reports were sent to the shareholders through email as per requirement.

Before I requested Chairman Sir to welcome the directors, shareholders and other participants, I have to say the following. As stated in the notice for the AGM para 17/G, members seeking any information with regard to accounts or any matter placed at the AGM, were requested to write to the company owner before 13th September through email. We have not received any email to that effect.

Some of the members who have desired to express their views have registered themselves as speakers. Mr. Kishore Chatnani, the moderator will be calling their names and they are requested to express their views on the businesses of the company as contained in the notice for the AGM. We shall be thankful if they are brief and restrict their views upto 2 minutes each.

Mr. Aditya Puri, Managing Director, Mr. Kishore Chatnani, CFO and Whole-Time Director Mr. Sanjay Gulati, Whole-Time Director and Head Manufacturing unit will reply to their queries after all the speakers have expressed their views. In case any of the queries need gathering of information from the records, necessary reply will be sent by email separately.

We have requisite quorum and I request Ranjit Sir to conduct the proceeding further. Thank you

Ranjit Puri, Chairman:

Thank you. Welcome to all shareholders. The Board of Directors are happy that we are gathered today on the 88th Annual General Meeting. This is the second time that we have not met in person, we had to forego that pleasure owing to Covid. Hopefully in future we will be able to meet in person also.

This AGM is being held through video conference. This is as per the advice of the Ministry of Corporate Affairs and also as per the advice of SEBI. We have tried to follow all the rules.

I will introduce the Board of Directors one by one and they will kindly raise their hands when I call out their names. We start with Mr. Vishal Kirti Keshav Marwaha, he is chairman of the Audit Committee. Mr. Sidharth Prasad, he is the Chairman of the Nomination and Remuneration Committee and the Risk Management Committee. Then we have Mrs. Shivani Hazari and we have Mr. Arvind Sagar our new director. We have Mr. Aditya Puri, the Managing Director. Mr. Sanjay Gulati, Whole-Time Director and has recently joined the Board. He is heading the Manufacturing Units of the Company and Whole-Time Director. And the other Whole-Time Director is Mr. Kishore Chatnani who is also the Chief Financial Officer of the Company. Mr. S.K Khorana who is the Executive Director and the Company



Secretary. We also have with us Mr. Abhinav Khosla, who represents our Statutory Auditors of SCV & Co. LLP Chartered Accountants, he is a Senior Partner there. Also, with us are Mr. Gopinathan Mohandas, our cost auditor who could not make it to this call today and Mr. Pramod Kothari, the Secretarial Auditor. And thank you all shareholders for being with us.

Since we are meeting through video conference, there are some rules, I am sure you are familiar with, still is my responsibility to spell them out to you. First of all, there are no proxy, and that procedure if not applicable in a video conference. So, you have not been provided with proxy forms and there is no proxy register. However, other applicable papers, other applicable registers for example Returns and statutory documents are available for inspection at the e-voting module made available by the e-voting service provider. So, if you feel the need to consult any of these, they are available to you.

Mr. Khorana has already mentioned we have a quorum, so I formally call this meeting to order. Quorum is assumed in such circumstances and this has been told by the ministry of Corporate Affairs and in the Companies Act.

We have sent out the Annual Report for the financial year to all the shareholders as on the 13th of August and it is with you as of now including the notice for the AGM. They were sent on the registered email id. Since this is a video conference, resolutions will not need to be proposed and will not need to be seconded. E-voting has been available from the 14th of September until yesterday, 3 days, 9:00 am from the first day till 5:00 pm yesterday. I am sure most of you have voted. If you haven't there is a 15 minutes window after this meeting, and you can cast your vote. And if you have already voted please don't vote twice.

The result of the meeting will be declared on the website within 48 hours of the closure of the meeting.

In your hands will be the report by the Chartered Accountant and the Secretarial Auditors, that is to say M/s. SCV & Co. LLP and Mr. Pramod Kothari. The law says that if in these reports any shortcomings are mentioned, unqualified opinions are mentioned, then these reports have to be read out. Since the reports are clean, we are dispensing with reading these reports, they don't need to be read.

I would like to talk about the Corona Virus, we have gone to great pains to see that, not only all our employees who were eligible, those who did not have medical conditions were not eligible and very largely there are employees and their families who have been inoculated. It would be difficult to find any employee who has not been inoculated today who is medically eligible for inoculation. We have taken pains to clean up our premises, detoxify them, maintain social distancing and all the other rules, in line with but also exceeding Covid norms. The inoculations were done early. We have also supplied oxygen equipments to local hospitals in both Yamunanagar and Muzaffarnagar. We have worked closely with the district authorities in both places, who have helped us because Covid times were not easy for our operations, they have helped us overcome difficulties that we have faced. And we have worked with them particularly in Yamunanagar, not only within our own employees and within our own colonies but also for example at their request and in co-ordination with them with the rural population in the town.



We are in touch with you at the Annual General Meeting during quarterly conferences and we also receive different suggestions from time to time. These are all taken very seriously. The board of directors doesn't disregard them at all, as we take seriously any complain or grievance from any shareholder.

I am happy to share that one suggestion that came from shareholders was to list the company on the National Stock Exchange. This was done on the 5th of May 2021.

The shareholders who registered themselves to speak at the AGM will be called upon. Mr. Chatnani will call out their name and they will then have the chance to speak. As is the protocol at such meetings, we have to request them to limit their comments to 2 minutes. Before I hand over to Mr. Aditya Puri to brief you about the working of the company, I wish each and everyone of you and your families good health, and hope we meet in person next year. Thank you

Aditya Puri, Managing Director:

Good morning ladies and gentlemen. This is the second Annual General Meeting being held through Video Conferencing. For the benefit of the Shareholders I will give a short introduction about our business.

We are a diversified heavy engineering company engaged in manufacturing and project businesses. We manufacture process plant equipment, presses, and iron and steel castings. We execute turnkey projects for setting up boilers, power plants, air pollution control equipment, sugar plants, distilleries, factories, and bulk material handling facilities. We have also developed strength in construction. We address the requirements of a wide spectrum of industries mainly power, fertilizer, sugar, and distilleries, oil and gas, automobile components, steel, cement, chemicals, railways, and defense. We have customers and projects spread across 91 countries. Our presence across multiple industries and geographies helps us to spread any sectoral or geographical risk.

The business of the Company during the financial year 2020-21 was adversely affected due to the lockdown from the last week of March 2020 till May 2020. Financial year 2020-21 has been a mixed bag. There was a shortfall in revenue as a result of the lockdowns. The profitability was, however, higher due to savings across various heads such as legal expenses, employee costs, travel expenses, as well as increased efficiency, including the use of technological solutions. The total consolidated revenue for FY21 at Rs. 5,477 crores declined by 7%, as compared to Rs. 5,914 crores in FY20. The consolidated EBITDA for FY21 at Rs. 507 crores is 42% higher, as compared to Rs. 357 crores for FY20.

The overall demand trends were encouraging after the lifting of the lockdown. Many new orders were booked from sectors such as Railways, Power (with orders being placed for Boilers, Air Pollution Control Equipment, and Waste to Energy Units), Water, Process Industry, Construction, Fertilizer, Cement, Refinery, Steel, Sugar, Ethanol, Chemicals, Food, Oil & Gas, Renewables, Automotive, Aeronautics, Refractory, Mining, Soda Ash, Paper, and Tool & Die. We have also increased our focus on booking more orders for the Operation and Maintenance of Power Plants and Distilleries.



Order booking during the financial year 2020-21, as well as during the first quarter of the current financial year has been very good. Standalone orders in hand as on 30th June 2021 are Rs. 7,284 crores, against Rs. 5,919 crores on the same date in the previous year. These are equal to 18 months' billing. In fact, we are now being selective in booking orders. We have been notifying the announcements regarding booking of important orders on the website of the Bombay Stock Exchange and the National Stock Exchange. The consolidated orders in hands as on 30th June 2021 are Rs. 7,924 crores, against Rs. 6,580 crores on the same date last year.

With the onslaught of the second wave of Covid-19, work was again adversely affected until July 2021. Factories were running normally until the third week of April 2021 and, in spite of there being a few Covid positive cases, there was no shortage of labour. However, there was a shortfall in production because of non-availability of oxygen and argon gases. The availability of oxygen and argon gases has since normalized.

In the Projects business, we had to keep our offices in Noida, Pune, and Chennai closed for 6-8 weeks in the first quarter, and our employees worked from home. Offices have reopened with 50% to 60% attendance being permitted on rotational basis.

All project sites were operational but considering the fear and panic all around, retention of existing manpower of contractors became a challenge. Difficulties were also experienced in resource mobilization such as tying up with testing agencies and procuring tools and cranes. Supervision of erection and commissioning was also adversely affected due to some of the engineers being Covid positive. The working at project sites improved in June 2021 and is now near normal.

Due to the aforesaid factors and the unexpected increase in commodity prices such as steel, copper, and other metals, the turnover, and profitability for the first quarter was less. With improvement in the situation, things should improve in the second half of the year.

Regarding Cavite Biofuel Producers Inc. in the Philippines, we are on track to restart construction of the Plant which should happen in October 2021. We think that it is a good business and will be profitable to run, although we will keep open our option to sell the Plant, depending on the situation and terms and conditions.

The Ethanol Plant at the Saraswati Sugar Mills has been completed and is expected to commence commercial operation shortly. All other Joint Venture and Subsidiary Companies are working satisfactorily.

In general, we continue to be optimistic about Isgtec's overall positioning in the market, and with our exceptional engineering skills, a portfolio that is truly diverse, our strategic technology partnerships with leading global firms that help us keep abreast of the latest and most relevant gen-next technologies, extensive experience honed over decades, and the right quality of people, we believe we have the EDGE that will enable us to continue to focus on strengthening our financial metrics and in serving the community and people at large.



I thank you once again for your continued faith in Isgtec and its management. I wish you and your families all the best. Thank you. I now hand it over to Kishore to conduct the rest of the meeting.

Kishore Chatnani, Whole- Time Director and Chief Financial Officer:

Good morning, so we have two attendees at the moment who want to speak out of the five who have registered. The first one is Mr. Kaushik Mehta.

Kaushik Mehta, Shareholder:

Hello sir, Good afternoon. I have few questions. Sir, if I look at the order book in the last 3-4 months, you are getting orders from extremely diverse sectors, including getting orders for putting up Hydrogen plants and large scale SRU orders for refineries. Can you quantify a little bit, because as an outsider reading just the press release, doesn't give us any idea of the scale, whether it's a Rs. 50 crores order or a Rs. 1,000 crores order. So, not asking order wise numbers but lets say all put together this quarter, in your understanding what are the total orders that we would have got?

Second, what I wanted to understand, if we look at our order intake per quarter, for the first time this quarter you said that we might have to give up some orders because we are getting Rs. 2,000 plus crores order per quarter. Does this mean that there is some pricing power which has come back to some extent for players like us, who have had a very bad time for 4-5 years now? And does it mean we can as a minority shareholder hope for some margin improvement over next 2-3 years? If I look at the commentary of all the other heavy engineering or light engineering players, with some adjacencies to our business, we see similar commentary from them in terms of margin improvement that they can see not only in the EBITDA level, because that is the function of capacity but also at the gross margin level.

Third if I look at our EPC business over last multiple years, it represents a very low margin business with very low ROCE as well. Just wanted to know your broad thought process on it. We understand that tremendous capability as far as our product business goes, but to bulk up our EPC business, where we are making 4% margins, where do you see sustainable margins for this business and what is our vision for that?

And the last thing, slightly disappointed when you say that we might keep running the plant in Philippines and for the first time I got a sense that we might be ok running the plant in Philippines and not looking for an outright sell. Sir my humble request would be that market will not view this diversification in a good way. We think our core capability is Capital goods and not running some plant in some country like Philippines. Just a humble request from a small minority shareholder like us. Thank you so much and best of luck.

Aditya Puri, Managing Director:

We will take the second person and I will answer all the questions together.



Kishore Chatnani, Whole- Time Director and Chief Financial Officer:

Mr. Vibhu Aggarwal, you can speak now.

Vibhu Aggarwal, Shareholder:

Thank you Kishore Ji for the opportunity to speak. I represent one of the leading shareholders' of Isgtec Heavy Engineering the Parasram Group, that was founded by my grandfather Shri. Subhaschandra Ji. I would like to take this opportunity to appreciate all the extensive work that Isgtec has been doing especially in the last 10 years, including the Railways and the work you have done in Air Pollution and the international tie-ups that you have been looking forward to. This has also taken our company to top 500 companies based on the topline. Isgtec has been taking good care of their shareholders as well especially by sub dividing the face value Rs. 100 to Rs. 10 and year after to Re. 1. And also listing the company on the National Stock exchange as well. There is a saying that Lakshmi and Saraswati are never together, but my grandfather used to say, that Saraswati has brought us Lakshmi. So, I would just like to thank you again for the opportunity and thank you for taking good care of us all. Thank you.

Aditya Puri, Managing Director:

Kishore, is there anybody else?

Kishore Chatnani, Whole- Time Director and Chief Financial Officer:

We have only 2 speakers today.

Aditya Puri, Managing Director:

Let me just answer the questions. Thank you, Mr. Kaushik and Mr. Aggarwal. I will answer some questions and I will leave some questions to be answered by Kishore and Sanjay particularly on the figures of order booking that you have asked for. First of all, I want to clarify that Hydrogen is a buzzword these days, people are looking at renewables. But Isgtec has not booked any order linked to Hydrogen, so I would just like to clarify that. You are right the sulphur recovery unit order has been booked from IOCL for execution. So typically, what happens in these sort of orders is that you tie up with somebody for technology and in this particular case our technology tie up is with leading international player called Air Liquide. The tie up with them is for core technology and we bid and execute the project. Regarding the numbers I am not sure how much I am allowed to disclose. So, I will leave that upto Kishore to give you the numbers for order booking.

You are right that the EPC business does come from a diverse set of industries. We use some our core engineering skills to see how these can be applied to EPC projects and this is how most of the EPC projects companies work. For instance, we have a full engineering set up for material handling, we do the full engineering for that and we are currently executing a project for Mahagenco in Maharashtra. This is based on engineering with some technological help from technology provider. But basically, using our mechanical skills, our skills in electrical, CNI, civils, structurals, using our engineering skills to see to execute this project. So, I agree these EPC projects do come from a diverse set of industries, but it is using our core strengths



which are core engineering and execution strengths which are common across all these projects.

Regarding your question on margin improvement, we are looking forward to margin improvements in the EPC business. We have gone into few new areas of business in the last 2-3 years, one is FGDs for cold based power plants, then we are doing some work in water and we are also doing some work in material handling. All of these projects are first time businesses. And I am happy to say that yes there have been things to learn from these projects and we knew that the margins are going to be low. But there have been no exceptional very large surprises that we have come across. There are lot of learnings that we have to take away from these projects, which we are now executing in the coming projects. So, if the commodity prices support us, margins will improve.

As for the Philippines business, we have never said that we will never sell the plant. All we are saying that our calculations that have been done by us and the external consultancy company also to do those calculations, show that the running of the plant is profitable. And till the time we find a buyer, we will run the plant. If we find the right buyer with the right set of figures that he offers us, it is our thinking also that we will probably divest the plant. But all we are saying is that even running the plant is a profitable venture.

Kishore, some figures the gentleman wanted on order booking quarter wise. So, to the extend that you can give please do.

Kishore Chatnani, Whole-Time Director and Chief Financial Officer:

Can talk about the consolidated order booking for Q1. I believe Mr. Mehta wanted to know what the consolidated order booking for this quarter ended June of 2021 was. So, the consolidated order booking is Rs. 2,366 crores. Standalone order booking is Rs. 2,131 crores. These figures were disclosed in our presentation to the investors, which was uploaded on our website and on the stock exchange.

S.K. Khorana, Executive Director and Company Secretary:

Since there are no other speaker, I think we have come to the end of the meeting. So, I, on behalf of the company and my personal behalf would thank all the shareholders who have attended the meeting through Video conferencing. I also express my thanks to all the directors, Chairman Sir, Managing Director and Whole-time directors, Statutory Auditors and Secretarial Auditors for attending the meeting. As declared by Chairman Sir, the members who could not vote till yesterday evening can vote in the next 15 minutes. The meeting will consider to have concluded after 15 minutes. Good afternoon and stay safe.