"The Anup Engineering Limited Q4 & FY-19 Post-Results Analyst & Investors Conference Call"

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MANAGEMENT: MR. RISHI ROOP KAPOOR – CEO, THE ANUP ENGINEERING LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Conference Call for Analysts and Investors for Post-Results Discussion Quarter Q4 and full financial year 2018-19, The Anup Engineering Limited. 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 touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishi Roop Kapoor. Thank you and over to you sir.

Rishi Roop Kapoor: Good afternoon to you all. I'm delighted to welcome all of you to this first Investor and Analyst Call post the demerger and listing of Anup Engineering which happened earlier in 2019. I will touch upon our Q4 and full year performance and also share the highlights of our go forward plan for FY 2020 and beyond.

In terms of Results, we closed FY19 on a very strong note. Our overall revenues for the year grew 10% and stood at Rs. 221 crores. This excludes the trading income. Corresponding to the above operating income, the EBITDA margins grew from 26% in FY18 to 29% in FY19 and stood at Rs. 64 crores for the FY 2019. This was partly a result of better realization of export benefits. Also, you will note that PAT was lower both in Q4 as well as for the full year, largely as a result of deferred tax adjustments.

For Q4, the revenues reduced from Rs. 82 crores in Q4 of 2018 FY to Rs. 66 crores, both these numbers exclude the trading income. Our quarterly revenues and margins depends upon the shipment and deliveries which are actually executed on the basis of contractual commitment that are made to the customers and subsequently the customer guided timelines in our contract. So just to put in the right perspective, if you look at the overall H2revenues, they increased from INR 125 crores to INR 143 crores which basically means that in Q3 we saw the phenomenon as a reverse where we did significantly better in this financial year than the corresponding quarter in the previous year. And of course, Q1 which is coming up in the new financial year, is we can see better numbers.

Our order books, as they continue to remain extremely strong and we have opened this financial year with the confirmed order book of Rs. 300 crores to be delivered in the next 4 to 5 quarters. In comparison the opening order book as on 1st April, 2018 was INR 155 crores, so there is a significant jump in terms of the order book situation which is also a reflection of very good market conditions.

In line with our stated plan to hit 1000 crores revenues in 5 years timeframe we are planning for an aggressive 30% growth in FY 2020. To realize this growth, we are planning a two-pronged strategy. Firstly, we are expanding our facilities in the existing locations. We are improving the infrastructure and we are adding new bays which will increase our capacity at the existing locations. We have also acquired land at a greenfield location which is about 40 km away from our current facilities where we will have a completely new plant which will further augment our capacities. Secondly, in addition to expanding our capacities we are also adding technical capabilities to be able to enhance our product mix significantly and make us better equipped to handle higher-end equipment with more sophisticated designs and more advanced metallurgies. I will further share specific details of these initiatives as we progress through the year.

Now I invite you to ask any questions that you may have.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. We take the first question from the line of Parthiv Shah from Tracom Stock Brokers.

Parthiv Shah: My first question is regarding your current order book which is at 300 crores. So can you give us some sense as to what the average order ticket size in this 300 crores kitty and year-on-year how that has changed? As I understand you were to move the focus on more bigger ticket order size and which verticals had contributed to this order book whether it is oil and gas versus chemical and whether we will be able to sustain the margins that we have done in FY 19?

Rishi Roop Kapoor: To answer your first question about increase in the average ticket size for the equipment that we are making; now that is something which is a direct result of the kind of product mix which we have been pursuing over the past 5 or 6 years and it has grown significantly. And between the last financial year and the current financial year for which we have the confirmed order book of Rs.300 crores, the average ticket size has increased by a factor of about 1.6X. So that's more than 50% improvement on the average ticket size of the last year. And your second question was about sustainable margin?

Parthiv Shah: Yeah.

Rishi Roop Kapoor: Now that is something that we are extremely confident about because we have got a very robust system of going for orders and evaluating the inquiries that we received. Whenever we receive the enquiries we have very good team of professionals to analyze the intricacies and the complexities of that particular enquiry because all of our orders are unique and made to order, they are tailor-made. And each have its own typicality or uniqueness or complexity. So we cannot really miss out on the special aspects and that's something which we do very well. And during the pre-order stages we are able to list on all the requirements and we are able to provide for those in the estimate so that we do not incur any out of pocket expenses while executing the order. So primarily that focus has been our strength over the past few years and it will continue to remain the same in future. So we are very confident about maintaining our margins. And margins would be in the range for the Rs.300 crores we have projected for the next year, I mean we are hopeful of ending the year at about 25% margin at the EBITDA level.

Parthiv Shah: You mentioned that the demand is extremely strong for your equipment, is it anything related to the impact of the new IMO regulations where the refiners are upgrading the equipment which should help our company or what is the reason for the demand being very strong and softened a bit of late?

Rishi Roop Kapoor: Partly, it has been because of the stringent norms that are kicking in now in the developing countries. We already had a first round of Clean Fuel wave which happened over the last decade and a half in the developed world like the United States and Europe. Now the same wave is now hitting us and we are going to have those corrections in our refineries. So that's one part of it. But more importantly in the longer term to give you a perspective in the last 10 years or so we have had 150 billion invested in the refineries and various plants and in capacity augmentation, in debottlenecking and addition of capacities etc. But in the next 10 years we have projections of about 500 billion globally to be invested in the sector. And apart from that we have several other sectors which are looking up because India is going to continue to invest in fertilizer plants and would like to be self-sufficient and the stated targets of being self-sufficient by the year 2023. And similarly LNG which is attracting investments because of the cleaner nature, also India is the largest producer of coal in the world and it would like to use its coal in a better cleaner manner than it has been used so far so there is going to be a lot of emphasis on coal gasification plant so that the coal can be converted into syn-gas and that can be utilized as a feed for our fertilizer plants and so many other process plants. So the outlook for the next 10 years looks extremely good.

Parthiv Shah: We have a current mid-way CAPEX of RS.150 crores. I just want to get a sense that that includes also the Greenfield project that you talked about which is 40 km away from Odhav and after this CAPEX is over, what sort of asset turns can we expect from this particular CAPEX?

Rishi Roop Kapoor: This includes the CAPEX that we have planned for the new Greenfield facility at Kheda. And we will have definitely similar asset turns that we are seeing here in Odhav.

Parthiv Shah: The last question is regarding the Linde-Praxair merger, internationally that's a huge merger and also the India the operations have merged. So can it have a positive impact for it because I think Praxair is one of our customers, I didn't see Linde being one. So if you could throw some light on that merger and how it can positively or negatively impact us?

Rishi Roop Kapoor: Can you please repeat your question, Linde merging with?

Parthiv Shah: Linde's merger with Praxair.

Rishi Roop Kapoor: Praxair.

Parthiv Shah: Yes.

Rishi Roop Kapoor: Linde will continue to be I mean they are the market leaders as far as hydrogen plants are concerned and we have been their most preferred vendors in fact consecutively for the year 2012-13 and 14 and we have been participating with them on all their global plants as well as their plants in India. In fact for the most complicated equipment Anup has been one of their trusted vendors and partner and this is going to continue. We have also supplied separately to Praxair as well for some of their plants in the US and in India as well in the past. So a merger of these two companies is going to have—I believe that it is going to have—a positive impact on our prospects as far as Linde and the new merged entity is concerned.

Moderator: The next question is from the line of Maulik Patel from Equirus Securities.

Maulik Patel: What's your export as a percentage of sales and how it has been growing over the last few years if you can highlight?

Rishi Roop Kapoor: The percentage of exports tends to vary as far as we are concerned and depends on the kind of projects which are there on the horizon in that particular year, so it has been varying pretty significantly and there is no trend as such.

Maulik Patel: But you mentioned in one of these slides that you get some export incentive, so is that export incentive significantly larger which can move your EBITDA margin?

Rishi Roop Kapoor: Yes it can have a positive impact like it has had in this previous year, maybe by about 2% or 3%.

Maulik Patel: So export orders are more profitable than the domestic?

Rishi Roop Kapoor: It is to a large extent because to that extent when we talk about an international project we tend to compete with the local fabricator there in the destination ports in those areas, so we tend to be obviously more competitive and there are fewer companies who can participate in that market. So going forward export will be our focus though it's hard to predict and it depends a lot on the kind of projects that we will see on the horizon. For example in the FY20 the percentage of export is going to be lower than what we have had in the previous year.

Maulik Patel: And that could be one of the reason you are guiding that the margin could be around 25% versus 29% this year?

Rishi Roop Kapoor: Absolutely.

Maulik Patel: The second question is that you mentioned that you have an amazing revenue growth. If I look at just last 5 years, you were around 70 Cr; you have projected around 220 Cr in terms of a top line. In an environment where the growth domestic CAPEX cycle was not very strong but what gives you the confidence from moving from 220 to 1000 Cr in 4-5 years? You mentioned that about this IMO, you mentioned some of the opportunities in syngas or LNG. But are we trying to adding new products, new markets we are trying so what we will try that if you can just give some color on that side?

Rishi Roop Kapoor: Yeah absolutely as you mentioned correctly we have had a quite a good rate of growth in the past 5 years and if you look at it we have been operating from the same capacity and practically the same infrastructure over the last five years still we have been able to achieve significant growth. So the primary reason for that is we have been very focused on enhancing the product mix, so that has been one reason which has allowed us to grow despite very adverse market conditions. And second factor that has contributed is that we have been able to retain a lot of our customers. In fact almost 85% of orders that we get, they are on a repeat order basis and the reason for that is that we have a phenomenal record as far as in fact the best record in the industry as far as delivery on time is concerned. So we have an excellent record of on-time delivery and the fact that we have been able to improve our manufacturing capabilities, skills, we have been able to inspire that confidence in the customers to be able to trust us with more complicated equipment. We have been able to significantly improve our engineering skills by adding engineering capabilities which have given us a completely new dimension as far as the additional services that we can provide to our customers and also we have been able to successfully reach out to overseas customers and we have been able to get our shops approved and our systems approved after thorough audits by them so that that has opened new doors to us, new markets to us. And this strategy is going to continue in future there is a long way to go and there is a huge potential out there where we will be able to tap that with the significant infrastructure that we have planned to build in Kheda that will allow us to dramatically alter the kind of product mix that we have been doing so far and it will also help us to cater to the export market in a very good manner.

Maulik Patel: In terms of you mentioned about the products which you have introduced if you can name some of the products which you have introduced in the last 4-5 years and does it require having a technical tie-up? How do you get the technology? Even in the future if you want to have more products is the technology tie up is the one route which you are looking at.

Rishi Roop Kapoor: Yes this is something that I would like to share with you is that we have been in the past like on one hand when I said that we have been able to enhance our product mix, one reason is that we have been able to take more complicated jobs, equipment with higher metallurgies like Titanium and exotic material. On the other hand we have also been able to successfully forge technical partnerships with technology holders for special and advanced designs of equipment. In fact there is so far we have maybe 1 or 2 equipment like that in our portfolio but at this moment I can just share with you that we have had another technology partner, we have signed an agreement with them and in due course of time we will be able to share the details with you and also we have plans to tie-up with another technology leader for a particular segment of equipment in the industry. So yes addition of special equipment, propriety equipment remain extremely high on our agenda and that is going to be certainly a driving force to sustain our margins as well as to achieve our 1000 crores target.

Maulik Patel: You have given this order book breakup in the presentation, at what timeframe this order book is executable, number one? Number two what kind of industries from this order book if you can give the breakup that the percentage of order book from a particular industry it will be very helpful?

Rishi Roop Kapoor: If you look at the order book, we have primarily in line with our status goal of becoming the best heat exchanger manufacturer in the country. Out of these 300 crores we have almost about 260 crores coming from Shell and Tube Heat Exchangers. And we have some amount of Pressure Vessels, Reactors and other categories. And most of these orders are coming from refineries and the integrated petrochemical plants which are coming up in a big way. So it's been mostly from refineries, petrochemicals and fertilizers because as you know in India we are right now implementing fertilizer plants at four locations with the fifth one coming up in future.

Maulik Patel: If you can explain how this entire order cycle and the execution cycle works particularly for you from the time of the announcement or to submit the tender, if you can just go through the entire cycle that would be very helpful.

Rishi Roop Kapoor: As far as the announcement of projects is concerned, that's something which is from there to actual realization of order, is a cycle that we are not really able to predict and it depends on so many factors and the final investment decisions by the clients sometimes take quite a long time and it's really unpredictable. So I would not be able to define a pattern there but yes I can tell you that typically the manufacturing cycles for our time of equipment vary from 30 days to as high as 200 days, so from the time of receipt of material. So from the time of receipt of materials on the shop floor the manufacturing cycles vary from 30 days to 200 days depending on the complexity and this is one of our strengths that we are a very versatile manufacturer. So we are able to cater to a wide range of requirements of over customer. And you can say in pre-manufacturing the time can vary, it will depend on the ordering of materials which will vary from 2 months to 4 months from the date of order. So you can consider 60 to 120 days plus 30 to 200 days on the upper limit.

Maulik Patel: You mentioned about this new facility coming into Kheda, when this facility is expected to be ready and are you shifting this entire existing line from Odhav to Kheda?

Rishi Roop Kapoor: Firstly the facility at Kheda should be on stream partly between 12 to 18 months and the facility in Odhav will continue.

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang Securities.

Manish Ostwal: My question on the EBITDA margin, you said that next year the EBITDA margin should be at around 25%. So first is can you give some quantification of the export incentive benefit to the current year EBITDA margin?

Rishi Roop Kapoor: Maybe 2% to 3%.

Manish Ostwal: 2% to 3% of full year basis?

Rishi Roop Kapoor: Yes.

Manish Ostwal: Second point is on a working capital side; the working capital has improved compared to 2018 to 2019 basically so do you see the further scope of improvement in working capital and secondly what is the steady state working capital cycle for our business?

Rishi Roop Kapoor: Yeah, you can actually expect these numbers to continue in the next year, the same cycles to continue.

Manish Ostwal: After this capacity expansion in the new product addition what is the potential revenue we can generate after that CAPEX?

Rishi Roop Kapoor: Again, it is going to depend it is difficult for us to make a projection like that—but what we are going to for sure is that we will make this facility as a world-class facility and it will be able to handle very complex orders. The actual incremental numbers will depend on the actual orders that we receive and we will share with you as we move on through the year.

Manish Ostwal: And last question on this current order book with 300 crores and we anticipate very strong growth 2019-20 but as far as the order book inflow is concerned for the next couple of years given the muted domestic investments climate; what is the overall outlook on the order book inflow for next 2-3 years?

Rishi Roop Kapoor: It's very positive in fact we have confirmed projects which have been announced and we have a very strong enquiry pipelines.

Moderator: The next question is from the line of Chintan Seth from Sameeksha Capital.

Chintan Seth: In the export, right now the order book of 300 crores what is the export mix?

Rishi Roop Kapoor: Above 15%.

Chintan Seth: In terms of client concentration within the order book right now; how many customers are there or which one project or one client constitute how work facilities of total order book?

Rishi Roop Kapoor: For the next year the most of the projects are like 85% in domestic so it's all going to all these Fertilizer plants and Refineries and Petrochemicals in India , may be because a lot of these are Greenfield projects so they are coming via different customers, different EPC contractors. You can say the percentage of orders that we got from EPC companies is higher. So, companies like Petrofac and Technip and so on and so forth.

Chintan Seth: The way we work or we wait for the project is through directly to the customer's requirements or we get it from the EPC contractors and how it works?

Rishi Roop Kapoor: We work work across both modes and there are orders which are placed directly by end users and typically those are for replacement or shutdown or smaller projects which are managed directly by the end users and for our larger scale projects the order are generally managed by EPC contractors.

Chintan Seth: How do you manage those because mostly it is a metal which is being used consumed for the product being manufactured. How do you manage the metal price volatility within that?

Rishi Roop Kapoor: Yeah, like I told you that we have very strong processes to evaluate the requirements in the pre-order stages that the enquiry stage itself, so most of these materials we already have identified the vendors and we have their confirmed quotations prior to taking the order. And we have a very wide vendor base for each of the categories for raw materials that we require. So as soon as we get the order, we are not really in exploratory mode but we are in the negotiation mode already and we are able to place the order in a short period of time.

Chintan Seth: On the working capital again if I look at your number of days even it had improved from 18-19, we are still way above our comfort level of 150 days of net conversion cycle, 160 days in fact so what is the typical debtor and inventory cycle because from your commentary it seems like the orders are getting executed within a year at most if I take into account from the day 4-5 months of getting the material on your shop floor so within a year the project getting executed why such high debtor numbers and inventory numbers on the books?

Rishi Roop Kapoor: The past numbers might not be such a great yardstick because if you are looking at next year, we are growing substantially; in fact there is a growth in tune of about 35% over a current year, over a previous year numbers. So, to that extent-and we have confirmed orders and we want to secure the materials probably this is the situation is going to be there for this current year and as you move forward because of the growth is going to continue you should perhaps be looking at the forward number of days.

Chintan Seth: Do we get advances against the order, is it not like that we execute the order, the product is being deployed to the client as per their specifications and once they use it or install it and up and running and statement is done then the payment gets released, how is it actually happening?

Rishi Roop Kapoor: Partly we get some advances and these are in accordance with the industry norms.

Chintan Seth: How much percentage of total orders, ballpark number 5% to 10% order?

Rishi Roop Kapoor: It depends on the kind of orders; from where the order is coming may be about 15% to 20%.

Moderator: We take the next question is from the line of Shreyas Bhukhanwala from Canara Rebeco Mutual Fund.

Shreyas Bhukhanwala: You mentioned that our order inflow pipe line seems to be quite strong, so are we seeing the action majorly from the domestic market or we are looking even the export markets are looking good?

Rishi Roop Kapoor: Current year is predominantly domestic but the kind of enquiry pipeline that we have it is strong on both sides domestic as well as overseas.

Shreyas Bhukhanwala: On the CAPEX front, so we are looking at around 150 crores of CAPEX so what was the CAPEX last year in FY19?

Rishi Roop Kapoor: FY19 it was about 40 crores.

Shreyas Bhukhanwala: We mentioned that the top line actually de-grew in this quarter because of the contractual timelines also, so was there any major one or two projects which led to this decline?

Rishi Roop Kapoor: In our business we are actually though we would like to have a uniform loading across all our quarters but it actually depends on customer priorities and their site readiness and so many other factors which are beyond our control. Typically quarter to quarter there is going to be variance so maybe on a longer term period is going to be as a better indicator, for example if you were to compare the H2 of the last financial year with FY19 you will see that it has H2 numbers, the revenues have grown from 124 to 143 crores actually, so that's a better indicator on a longer term period so it's a 21% growth and plus you will see we are expecting better numbers in Q1 as well as compared to the corresponding period last year.

Shreyas Bhukhanwala: Even our employee cost has increased by almost 30% this year, so this was in anticipation of the expansion what we have done or partly?

Rishi Roop Kapoor: Yes partly it is because of that in our business the experience and knowledge and the skills of people are tremendously important and we have been augmenting our teams across functions like Engineering, Welding and Manufacturing and quality. However if you look at on our total as a percentage basis of the top line, it is actually in compared to competition it is much lower. The competition if you look at industry norms the percentage is varying from 9% to 13% whereas in our case it is about 7% or 8%.

Shreyas Bhukhanwala: How do we see this moving forward?

Rishi Roop Kapoor: Perhaps it will stay at the same levels that's what we are expecting.

Shreyas Bhukhanwala: Same levels in terms of percentage of revenue?

Rishi Roop Kapoor: In terms of percentage of course.

Moderator: We take the next question from the line of Anubhav Gosavi from Stewart & Mackertich.

Anubhav Gosavi: If we want to segregate in our order book which industry are we catering to and how much percentage it will be?

Rishi Roop Kapoor: We are primarily catering to the Refineries, Petrochemicals and Fertilizers, so that is the product mix as far as the next financial year FY 2020 is concerned. So we are primarily catering to Refineries, Petrochemicals, Fertilizers. Our prime customers are process sector and process plants across industry segments are our customers, potential customers. This again might change in from year-to-year basis depending on what kind of investments are happening across industries.

Anubhav Gosavi: What you are expanding in Kheda, how much incremental capacity will it give us and how much revenue we can think of generating incrementally?

Rishi Roop Kapoor: The Kheda expansion as well as whatever CAPEX we are doing in Odhav apart from all the other strategic initiatives that we are taking should help us to reach the 1000 crores number in the next 4 to 5 years.

Anubhav Gosavi: The CAPEX number, what would be the CAPEX of that expansion?

Rishi Roop Kapoor: We have planned about 150 crores CAPEX over the next 3 years. That's also there in our presentation.

Anubhav Gosavi: If you can broadly describe what kind of investments are going to come in our Refinery and Fertilizer sector where how much market share, what is the scope for us if I say precisely in that?

Rishi Roop Kapoor: Actually scope for us is tremendous because we still have to—there are markets which are yet to—be reached as far as we are concerned and we are still making us more visible like export markets for example, so that's major sector where we are going grow and we are actually starting out small so there is a long way to go, huge potential as far as we are concerned.

Moderator: We take the next question from the line of Maulik Patel from Equirus Securities.

Maulik Patel: One question on the balance sheet, you mentioned that you have around 57 Cr of around cash surplus. But in cash side the number is much lower or is it part of the loans and advances, the loans and advances are 44 Cr.

Rishi Roop Kapoor: Yes, it is.

Maulik Patel: Who will bear given the loans and advances?

Rishi Roop Kapoor: It is to Arvind Limited.

Moderator: Ladies and gentlemen this seemed to be the last question for today. I would now like to hand this conference over to Mr. Rishi Roop Kapoor for his closing comments. Over to you sir.

Rishi Roop Kapoor: Thank you everyone from our side and looking forward to more such interactions maybe in future as we progress through the year. Thank you all very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of The Anup Engineering Limited that concludes this conference. Thank you all for joining us, you may disconnect your lines now.