“The Anup Engineering Limited’s Post-Results Discussion for Q4 and FY2022 Conference Call for Analyst & Investors”

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Moderator: Ladies and gentlemen, good day and welcome to Conference Call for Analysts and Investors for Post-Results Discussion for Quarter and Financial Year Ended 31st March 2022 of 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishi Roop Kapoor. Thank you and over to you, sir.

Rishi Roop Kapoor: Thank you and good evening to everyone who has joined this call. Before I begin, let me share with you that I have here with our CFO – Bhavesh Shah and Company Secretary – Mr. Chintan Patel. We are officially joining today for our concall for FY2022.

Before we proceed to the call, let me remind you that the discussion may contain certain forward-looking statements and that may involve known or unknown risks, uncertainties, and other factors. It must be viewed in conjunction with our business risks that would cause actual results, performance, or achievements to differ significantly from what has been expressed or implied in such forward-looking statements. Please note that we have uploaded the results and the press release and also the outcome of the board meetings on the stock exchanges and in case you have not received the same, you can write to us and we would be happy to share with you in due course.

Let me begin by taking you through our numbers for FY22:

The revenue for the year is at Rs. 288 crores which is up by 3% for FY22 as compared to the corresponding previous year FY21. The revenue was impacted due to multiple challenges at the supply chain both at the vendor as well as our customer sides including due to COVID delays, however, we were able to continue and maintain healthy EBITDA margin of 24.3%. PAT at Rs. 62 crores is up by 16% on a Y-o-Y basis for FY22. I am pleased to inform you that we have an all-time high opening order book of approximately Rs. 400 crores. Also, we have booked orders worth Rs. 25 crores since 1st April till date. We had the highest order booking of Rs. 437 crores during the last financial year which is FY22 and highest ever opening order book gives us great chance to scale up during the current financial year that is FY23.

Let me take you through the composition of the order book:

We have diversified order mix from various industry segments including refineries, growing share from petrochemicals, paper and pulp, and new age industries like renewables and offshore. We also are having highest average equipment value in the product mix in the order mix that we have on hand. The proportion of specialty and proprietary equipment is the highest in the order book. We have added newer customers from markets like South America, Europe and Middle East which will bode well for the company in the years to come in future. The inquiry pipeline continues to remain robust, however, the margins are expected to be impacted due to the volatility in the metal prices which all of us are aware.

On the CAPEX front, the CAPEX for the development of the clean room at Odhav will be completed in May. It is almost already complete and the bay is commissioned already. The clear room facility powers Anup into the elite group of global fabricators having the necessary infrastructure for fabricating exotic materials like titanium and tantalum. It will open the doors for the new product as well as new market segments. As far as Kheda is concerned, the phase 1 construction work in Kheda is also going on in full swing and is all tracked for commissioning in H2 FY23, sometime towards the end of quarter 3 and beginning of quarter 4. I am also pleased to inform you that the board has recommended a final dividend that is 80%, that is Rs. 8 per equity share of Rs. 10 each and the company for the year ended on March 31st, 2022.

Thank you and I shall be happy to answer questions if any.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: My first question is regarding the execution of the order book, so I assume that pre-COVID typically we used to execute any order within 4 to 6 months, but if I see 22, it looks like it has stretched, so how do you see the execution of this Rs. 400 crores order book?

Rishi Roop Kapoor: I think there is no change in the order execution cycles from the pre-COVID days to now, there is no change. The lead times for our fabrication and for all activities from the date that we received the order continue to be in the region of about anywhere between 9 months to 12 months in most cases.

Dixit Doshi: Secondly, you mentioned that margins will remain under pressure, so in last both the year, we have done around 24% plus, so how much impact do you expect?

Rishi Roop Kapoor: As far as the margins are concerned, it will be, as you know that the costs have risen very sharply in the recent months, so although we have increased our sales prices and also hedged majority of our inputs which will help us to improve our absolute EBITDA on an yearly basis, the percentage margin will definitely see a decline and at this moment it will be difficult to forecast how much percentage margin at this juncture due to very sharp volatility which continues to prevail in the input cost.

Dixit Doshi: But it will be like 200-300 basis points or you expect that it can be even more?

Rishi Roop Kapoor: I would perhaps, at this stage would refrain from doing so from making any kind of forecast on the margins at this stage because the process is still, we are still securing our materials, the process is still going on, so at this moment it is difficult to, there are certain other actions also which are going on, may be towards the end of first half, we will be in a better position to convey to you how the year is likely to end.

Dixit Doshi: My next question is in terms of CAPEX; how much we will be spending for this Odhav CAPEX and for phase 1 of Kheda?

Bhavesh Shah: The Odhav CAPEX has just got completed, it will be close to around Rs. 15-Rs. 18 crores and the CAPEX of Kheda would be in the range of Rs. 120 crores, the first phase.

Dixit Doshi: And last question from my side, you mentioned that once this Odhav CAPEX starts, we will be having much larger product basket, so it will be like different kind of heat exchangers we will be making or any new product will be doing?

Rishi Roop Kapoor: Primarily, the product mix is going to continue to remain as Shell & Tube Heat Exchanger, may be more of advanced designs like the Helical Heat Exchanger and EMBaffle kind of heat exchangers that we have in our portfolio.

Dixit Doshi: And that will go in any other industry or it will be more or less similar like refinery petrochemical and all?

Rishi Roop Kapoor: Definitely, they are going to find use across industry segments.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, two questions, first is, what kind of order inflows you are targeting for this particular financial year, FY22 was around Rs. 437 crores, so what are you targeting for this year, sir?

Rishi Roop Kapoor: We are looking at something like a growth of about 25% in this year in order booking, 25% to 30%,

Ankit Babel: And second sir, you mentioned that the execution cycle is somewhere around 9 to 12 months, so considering the fact that your opening order book is around Rs. 400 crores so is it fair to assume that the revenue for this year will be at least Rs. 400 crores?

Rishi Roop Kapoor: Definitely, in think that is what we are looking to grow by around 30% in the next year.

Ankit Babel: And the Kheda capacity, the commissioning is expected from second half of FY23, right?

Rishi Roop Kapoor: That is correct.

Ankit Babel: And sir, lastly you did mention that it is too early to hazard a guess about the decline in margins which you are expecting, but since the orders are already there with you, you know the pricing and you are also expecting a decline in margins, so why don't you give some guidance about the extent of the decline in margins, can it be like 300-400 basis points or like any typical range will be helpful for us to take an informed call, sir?

Rishi Roop Kapoor: The thing is why I said that it is may is not the best time to look at this because we are still trying to finalize the orders which have been received recently. That means in the month of March, whatever orders that we have received, lot of those orders are still in the engineering stages where the ordering is still to be done. So, that may have a kind of this being ordered now at a different time when the prices at what levels they are going to play is difficult to tell, but I think that may be it would be fair to assume that anywhere between 3% to 4% will be an impact.

Ankit Babel: For the full year?

Rishi Roop Kapoor: Full year.

Ankit Babel: I was asking that the new orders which you would be bidding now you would be bidding at 23%-24% margins?

Rishi Roop Kapoor: Yes, that is right.

Moderator: Thank you. The next question is from the line of Gunit from Counter Cyclical PMS. Please go ahead.

Gunit: So, we were discussing about the CAPEX that we plan to do and we are on track of completing CAPEX for two facilities, one is the Titanium one in May and the phase 1 of Kheda, so apart from this, do we have any other pending CAPEX, that is my first part of the question? And after the completion of CAPEX, how do we expect the topline to change? That is the second part of my first question?

Rishi Roop Kapoor: I would like to answer the question like this is that we have currently the CAPEX at Odhav is more or less completed with this clean room commissioning and as far as Kheda is concerned, the cost of the CAPEX is about Rs. 120 crores is the cost of the phase 1 of Kheda and the Kheda phase 2 and 3 they are spread over 3 to 4 years and as far as again the growth strategy or how the capacity is going to add to the topline, I think we are looking at a growth rate of the whole CAPEX has been designed to power our growth at about 30% a year, FY23 onwards.

Gunit: So, with the current CAPEX that will finish this year, how much addition to the topline can we expect like by the end of this year?

Rishi Roop Kapoor: FY23 is going to be about, we are looking at a growth of about 30%. I think like about anywhere between Rs. 380 and Rs. 400 crores.

Gunit: I have another question, so in the June 2020 meeting, we had a discussion that the company has set a target to achieve Rs. 1,000 revenue by 2025, so is that an achievable target right now given that we are already this 3 years away from 2025?

Rishi Roop Kapoor: Gunit, I think this is deferred by another 2 years because we lost a couple of years due to the COVID impact was quite substantial for our industry.

Gunit: And can we expect buyback of shares any time soon?

Bhavesh Shah: Gunit, we have done buyback in FY21, so using our internal accrual to fund our CAPEX and this is only phase 1, the Kheda total CAPEX is divided to three phases. So, going forward, we will be utilizing our fund for our expansion.

Moderator: Thank you. The next question is from the line of Apurva Shah from PhillipCapital. Please go ahead.

Apurva Shah: Sir, what I wanted to understand from that, have we introduced any margin clause for the customer so may be like for half year of FY22, is there any price escalation clause for the customer and that is how we can protect the margins going forward?

Rishi Roop Kapoor: No, there are no such clauses like price escalation clause in our industry. That is not the industry practice. It is always a fixed price contract.

Apurva Shah: That is why you are guiding for may be 300 to 400 bps margin impact, may be if the raw material prices remains at the similar level, right?

Rishi Roop Kapoor: That is right.

Apurva Shah: And sir, second thing also, I do understand say this quarterly number would not be directly comparable to the last quarter because Q4 last year was significantly high base, but if I look at your half yearly number, so this half we have done revenue of almost Rs. 148-Rs. 150 crores versus last year Rs. 162 crores, so apart from this supply chain issues and may be some customer related issues which you mentioned in the opening remarks, is there any other particular reasons which as an investor we could be aware because there is a slight decrease in the half year to half year revenue as well?

Rishi Roop Kapoor: Yes, I think the impact we had on our operations in last year quarter 1 and because of the shortage of manpower and that really hit us quite badly. In H2, we had organized ourselves better, but then that impact which was there of wave to was actually there, a lot of sites of our project sites where our equipment were headed to, they had got delayed and also another thing that happened was lot of our suppliers, they were not able to deal with that kind of a situation and that impact kind of really disrupted the flow of materials as required. So, I think primarily these are the reasons which really are responsible for a flattish kind of a growth.

Apurva Shah: And sir, do you see a normalized scenario currently versus may be last quarter?

Rishi Roop Kapoor: I think if we were to look at the order flows, yes, if you see that even the order flows got restored in Q4 and we are seeing that the momentum continues.

Apurva Shah: Bhavesh bhai, I wanted to understand CAPEX for FY22 between Kheda and Odhav, similarly whatever CAPEX we have planned for FY23 divided between these two facilities?

Bhavesh Shah: So, console CAPEX for FY22 would be close to around Rs. 40 crores and we will spending another Rs. 85 crores in the next year.

Apurva Shah: So, out of that 85, what could be spend on Odhav and what would be spend on Kheda?

Bhavesh Shah: Nothing in Odhav, nothing much in Odhav, Odhav would be hardly Rs. 2 to Rs. 3 crores, Rs. 5 crores maximum, all Rs. 80 crores will be spend at Kheda. Now, Odhav CAPEX is more or less done.

Moderator: Thank you. The next question is from the line of Prashantkumar Hazariwala from Solitaire Financial. Please go ahead.

P. Hazariwala: Sir, my question is like what capacity utilization you are working currently?

Rishi Roop Kapoor: We are working to the level of may be about, anywhere between 70 and 75%.

P. Hazariwala: So, still we have 25% more to go on the same capacity and plus we will get Odhav in this quarter, right?

Rishi Roop Kapoor: Yes, but that is the normal level of operations that we have because a lot of times, we have to have that kind of a flexibility, that kind of float available in our capacity to ensure that if something goes messed with the existing orders that we have, we can always squeeze in some orders for our traditional customers for shut down and replacements in these available capacities.

P. Hazariwala: My question is, most of the orders we have received in last 6 months, right, and the metals prices are not much appreciated during this period, it was appreciated before, no doubt about it, but only the fuel prices have gone up and that impacted loss on the inflation side and currently if you see like aluminum and all this copper price have been softened a lot during this period, so how 3% of the EBITDA count as operating margin?

Rishi Roop Kapoor: So, the metal price escalation has been the maximum in the last 6 months, it has been the maximum.

P. Hazariwala: Sir that was done before that, it has gone down and then I can come back to the same price, right, that kind of thing has happened?

Rishi Roop Kapoor: Not really, I wish that was the case.

P. Hazariwala: And the growth side, even last June you guys are bullish on this growth side that we have very good order book and all this stuff, right, in your last concall, but we have not seen any growth, in any aspect like in topline or bottom line or operating margins and currently you as of saying, so what is the possibilities out there, and it is not last year, we have seen since last 4 years like you guys are very bullish during the starting of the year and at the end of the year, it seasoned out, right, and we are running one more capacity although and I am not considering the Kheda capacity, so how confirm you guys are during this time?

Rishi Roop Kapoor: So, last, 2 years we have had a kind of difficult years because of COVID, I think FY21 we grew, but yes, you are right, in the last year the growth, it has been actually flattish kind of a transition into FY22 and the main reason for this is like I have mentioned earlier in the call, the impact on the supply chain that was something which was quite underestimated by us when we talked about in the last concall and also the impact of this on the customer side, the delays that happened at the customer side, the project sides which were not ready to accept the equipment's. So, I think those kind of delays were not really expected and not estimated. The other thing is you were to look at which is different in this year, how it makes it different is that never before have we opened the order book at this number at such a high order book. Last year, I think it was somewhere about Rs. 256 crores, this year we have opened that something like around Rs. 400 crores and subsequently also we have booked of orders and that the order flows looks to continue going forward as well. So, that gives us the full order to plan our kind of equipment, be engineering, procurement and ensure that the material and all, whatever inputs are required for fabrication of our equipment are all available on time. I think that is one key element that is required. Also, if we were to look at the last few years, because of the order book was lower, we were looking to deliver ahead of schedule and sometimes in our industry that doesn't really hold good whereas this time we have orders where the deliveries are going to happen make this required in this financial year in FY23. So, that is going to be the difference in this year.

Moderator: Thank you. The next question is from the line of Abhilash Mendeti, Individual Investor. Please go ahead.

Abhilash Mendeti: My query is regarding the Kheda CAPEX, how much the total CAPEX will be incurred in Kheda, is it Rs. 120 crores or is it more than that?

Bhavesh Shah: The total CAPEX of Kheda, all phases put together is close to around Rs. 275 crores. In the first phase, which we have already started, we will be incurring Rs. 120 crores.

Abhilash Mendeti: And why isn't the company exploring the pharma sector in the clientele list? Or let it be like this, any chances of precession equipment and further into?

Rishi Roop Kapoor: Yes, there is diversification is definitely very much high on our agenda and if we were to look at the current order mix also, the proportion is growing in the petrochemicals, we have in the past years also already made the breakthroughs in the power segment and we are continuing to do so in the current year as well. Even precision equipment the likes which are required for nuclear, aerospace and defense is something that is going to come up as Kheda, towards the completion of the third phase of Kheda.

Abhilash Mendeti: The Odhav expansion which we are doing, can it give a chance of exploring a higher order book, like bigger orders from bigger players because of the clean room technology?

Bhavesh Shah: Definitely. The clean room technology, the whole development of this bay and this facility is to get into higher order or higher kind of segment.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian Asset Management. Please go ahead.

Kunal Shah: Mine is one question, so we were having bottleneck of the capacity which I believe now should be done through since we have done with the CAPEX at Odhav, that is the bay area and so what I am trying to understand is that even if Kheda doesn't come up say by FY22, what is the revenue potential that one can go through from this existing facility now?

Rishi Roop Kapoor: The existing facility, the revenue potential for the next year you want to know?

Kunal Shah: Next year, you have already said that we will be doing the execution of the current order book, so the capacity constraints?

Rishi Roop Kapoor: The revenue potential from the current facility which is at Odhav, we can double it. The potential is to double it.

Kunal Shah: So, from existing facility, we can easily go up to Rs. 600 crores kind of topline is what we are saying and how would this bay area coming up?

Rishi Roop Kapoor: Yes, all the CAPEX that Odhav is now complete and we can increase the turnover from this facility itself to about Rs. 600 crores, between Rs. 500 to Rs. 600 crores.

Kunal Shah: Just wanting to understand, we have got a good uptake in the order book from Rs. 283 odd crores to the present where we are, but as one of the participant said the execution basically is a little slow in comparison to what we said in the last half, so is it partly because of the slow execution that we had seen the traction in the closing order book or do you want to leave that because if you see the Q3 and Q4 of last year and Q3 and Q4 of this particular year, then the execution probably has slowed down in comparison to the last year?

Rishi Roop Kapoor: Like I said, I think the delays that happened at the side, if you look at the execution speed, I think one indicator of that is our on-time deliveries record, it continues to remain very intact. So, whatever orders we are taking, we are delivering almost quite either on time or ahead of schedule. So, there is no slowdown there, but just two reasons that I have already stated in the call because supply chain disruptions and site delay and that really was kind of underestimated by us.

Kunal Shah: And how are you seeing that traction now building up, are you seeing any green shoots in the CAPEX other than crude obviously is doing very good, so there it is visible in the order book as well, but what is your sense now the cost escalations that have happened right, we see a lot of companies postponing their CAPEX plan because of the budget going haywire and there is a sudden slowdown as far as the order booking goes for the CAPEX, so what is your sense on how will be this going on presently?

Rishi Roop Kapoor: How we are looking at it is that currently I think the refining capacities and petrochemical capacities in India, they are likely to continue to have the CAPEX in the next may be 3 to 5 years, that is likely to continue and that is already going on and we are seeing what is happening, I think that traction continues, however, we are looking to now focus on the global market as such and start growing our exports. I think that is one area where we have taken where the focus is going on and the areas like, we have already made beginnings in projects of their blue hydrogen projects for certain, in fact the first project of its kind, we are getting into chemicals, we are getting into different sectors like fertilizers, gases, geopower, green hydrogen, green ammonia, so these are the areas where we are going to diversify and there are definitely opportunities available to us at the global level more certainly and in the existing sectors also there are companies who are going to, apart from India, who will ramp up the refining capacities and the petrochemical capacities and those CAPEX are continuing and that is very much evident in the kind of inquiries that we are getting.

Kunal Shah: So, basically, you are not seeing that much of a challenge as far as the CAPEX inquiry goes, yes, the cost have gone up, but still the inquiries continue to be robust basically?

Rishi Roop Kapoor: I think I would place the main reason for that is that we are into the high-end engineering kind of equipment. These equipment's are key to our plant's operation. So, I think these equipment are definitely something which where we are not seeing any kind of a decline there.

Kunal Shah: And just one question here, focusing very much on exports, so since the transportation cost of our capital goods equipment's plays a very important role since they are bulky, so how does the competitiveness get affected if at all it gets impacted when we are transporting or making it for a client who is based out of India?

Rishi Roop Kapoor: We have exported in the past as well to all parts of the globe including the United States and Canada and South America. Apparently, what is happening is that these kind of engineered equipment's, the capabilities to engineer, the capabilities to design are our strengths here in India and also the manufacturing, the whole manufacturing technology for these kind of engineered equipment is our strength and that is the reason why we are seeing that the kind of capabilities that we have, those companies are in the developed part of the world where either they have already shut shop because they are not able to compete this being a very material and labor intensive kind of work. Engineering efforts are so intense in this that in fact most of these companies they have their procurement and engineering centers located here in India.

Kunal Shah: More from the perspective that is the competition or the industry size is small for us to focus on India because in the past you said that margins when it comes to exports and domestic are more or less similar, so more from that perspective as well is the competitive intensity in India increasing and therefore focus on exports or how should one look at that?

Rishi Roop Kapoor: If you look at the kind of peers who have approved for these kind of products that we are making, you can count them on your fingertips, it is a very small field, these are highly critical, highly complex and the degree of engineering which goes into these equipment is quite high, so we have very few there and I think that is the competitive landscape is very favorable for us.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first set of questions are on the specialty/proprietary equipment which you have talked about, if you can explain what is the order book of such products this year, what was our revenue say of such products in FY22 as well as if you can talk about is this only helical heat exchanger you are talking about or what all is considered as proprietary or specialty products?

Rishi Roop Kapoor: You are talking about from the revenue mix point of view?

Aman Vij: Yes, for FY22 as well as you have mentioned in the order book it is one of the highest proportions, so if you can talk about that also?

Rishi Roop Kapoor: So, in the order book, it is to be tune of may be to the extent of about 45%. As far as the revenue mix is concerned, maybe we will have to find that data, it could have been to the tune of about 15% to 20%.

Aman Vij: So, correct me if I am wrong, first if you can talk about what all products are included in this specialty or proprietary business?

Rishi Roop Kapoor: These are advanced designs of heat exchangers, I have already named the helical and there are several other designs like this, so I would refrain from naming the other designs.

Aman Vij: Sir, but in terms of growth, so say, Rs. 300 crores sales which we did, you were talking about 15-20% which is like Rs. 50-Rs. 60 crores, but of Rs. 400 crores, you were talking around Rs. 150 to Rs. 200 crores order book, so is there such a substantial jump or is my understanding correct?

Rishi Roop Kapoor: That is right, the whole idea is that these equipment give a clear advantage to the user in terms of efficiencies and in terms of savings, so that is the reason why people are now, most users are now switching over to these advanced designs.

Aman Vij: That makes sense, so these advanced designs, the new CAPEX which we have done at Odhav, is that helping in getting this or?

Rishi Roop Kapoor: No, I think the demand for that product is increasing. One thing is that the kind of experience that we had in this kind of advanced designs for the last 20 years and the second thing is that more users are becoming aware about it. So, they are referring to go in for these designs rather than going for a standard kind of heat exchanger.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Rishi Roop Kapoor for closing comments.

Rishi Roop Kapoor: Thank you everyone and we would be happy to connect with you during this year. Thank you.

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