"The Anup Engineering Limited Q2 & Half-Year Ended FY23 Earnings Conference Call"

October 17, 2022

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Moderator: Ladies and gentlemen good day and welcome to the Q2 and Half-Year Ended FY23 Earnings Conference Call 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.

Before we proceed to the call, let me remind you that the discussion may contain certain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risks that could cause actual results, performance or achievements to differ significantly from what has been expressed or implied in such forward-looking statements. Please note that, company has uploaded the results, press release, investor presentation and also the outcome of the board meeting on the website of the stock exchanges and website of the company.

I now hand the conference over to Mr. Punit Lalbhai – Director of The Anup Engineering Limited. Thank you and over to you sir.

Punit Lalbhai: Thank you everyone and good afternoon to all who have joined this call. I am Punit Lalbhai, the Director of The Anup Engineering Limited.

Let me share with you that I have with me our new CEO – Mr. Reginaldo Dsouza and Mr. Bhavesh Shah – our CFO and Company Secretary – Mr. Chintan Patel on the call. We are officially joining today for our con-call for H1 Financial year 23.

So, it gives me great pleasure to introduce Mr. Reginaldo Dsouza, who we all call Regie. He has a very excellent track record of performance. His career which has spent 25 years with Godrej & Boyce has many important features that makes him a fantastic person to lead Anup. He has experience around sales and marketing and all the front-end functions of an engineering practice. But what is even more important is that he has also led the estimation, he has led manufacturing, he has led IT and he has led continuous improvement as well in his various roles at Godrej. He has a proven track record and we are extremely happy to have him on board with us. He will of course introduce himself in more detail once I conclude my opening remarks. Rishi Roop Kapoor has expressed had expressed his willingness to move onto a more strategic role with the Arvind Group, so he still remains with the group. He is going to look at incubating new technologies and newer businesses in the space for Arvind Limited and we will have access to his wisdom and his capabilities. He has brought this company from very modest beginnings to where it is today. So, his contribution is recognized and we are happy that he's still with the group and we have access to his knowledge and capabilities.

I would like to now hand the call over to Regie to introduce himself and talk us through the results.

Reginaldo Dsouza: Thank you everyone. My name is Reginaldo Dsouza – Chief Executive Officer at Anup Engineering. I come with an experience of about 25 years in the engineering industry. Have been associated with Godrej Group for 25 years, of which around 20 years in manufacturing and operations and the last 5 years has been in sales and marketing estimation and IT. The last 14 years have been with the process equipment business and hence had the fortune to experience the back end and the front end of a process equipment business in depth. This surely augurs well for my role at Anup Engineering in scaling up and building future strategies for the business, in ensuring sustainable performance in line with our growth aspirations. I'm truly excited to lead team Anup. Thank you and count on the support and guidance from all our well wishes. Thank you so much.

Let me now begin by taking you through our numbers for H1 financial year 2023:

The revenue is at Rs. 153 crores, up by 8%. EBITDA is at Rs. 30 crores, that is 19.6% EBITDA margin. Happy to say that we have a very strong order book of Rs. 536 crores as on Q2 and we expect annualized growth of 30% that is we expect the revenue of Rs. 225 crores in H2 FY23. Our new state of the art facility at Kheda phase 1 is likely to get commissioned by end of Q4 FY23. The civil and fabrication work to be completed by Q3 end.

Thank you and happy to answer if any of you have any questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer questions. The first question is from the line of Chetan Vora from Abakkus Asset Management.

Chetan Vora: What I was asking that you just stated that for the second half you are looking after revenue of 425 crores, so that it has also revenue of 370 odd crores, right? And at the start of the year, we were guiding nearly 400 crores of revenue. So, we are revising it downwards, is it?

Reginaldo Dsouza: Chetan we were talking on some growth of 30%, we are maintaining the same level, 30% over last financial.

Chetan Vora: What's the scenario on the commodities front? The margins have improved on a QOQ level, so how should one see on that level?

Punit Lalbhai: So, I'll answer that. Chetan, the bulk of the order booking that was done for this year was in the second half of last year and that is why our H2 is going to be a lot heavier on the delivery front. What will happen is that, most of these orders were taken at the peak of the sort of raw material spike where we had very little time between actually bidding for the orders and actually the spike happening after winning the orders. So, the raw material pressure is likely to continue till the end of Q4. So, the margins should remain around what we see them in Q2 for the rest of the year. However, the good news is that going forward all the orders that we booked post a spike that form a big chunk of this 536 crores order book. They have started returning to the old levels of margins. So, we should likely see good margins return in the first quarter of the next year.

Chetan Vora: Is it fair to assume that of the total book of 540 crores what we have right now and 225 crores which is to be executed in the second half, the remaining part of it will be at a normal historical margin of 24%-25%?

Punit Lalbhai: Yes, very close to that is what we can say.

Chetan Vora: The other question was that I was looking at the balance sheet, there that appears to be that loans given to the extent of 35 crores which was nil as of March '22, what is this for?

Bhavesh Shah: Pardon, if you can come back?

Chetan Vora: In the balance sheet, the half yearly balance sheet, what you have filed, the loans given stands at 35 crores which was nil as of March '22, what would be this for?

Bhavesh Shah: Yes, it is the loan given to our subsidiary, in consol balance sheet it is nullified. It is a contra entry. So, in standalone it is a loan given to our subsidiary which is operating at Kheda.

Chetan Vora: Kheda is under the wholly owned subsidiary?

Bhavesh Shah: Yes, Kheda is right now at a wholly owned subsidiary.

Chetan Vora: Fine. What you mentioned in the press release that the Kheda will be getting, the first phase will be getting commissioned by the end of the Quarter 4 FY23, right?

Bhavesh Shah: Yes, we are confident.

Chetan Vora: This will be what sort of, this will be the two lines or one bay, what is that?

Bhavesh Shah: Is it 1.5 bay. It's the first phase what we have envisaged.

Punit Lalbhai: The complete first phase will be operational which includes one full bay and half a bay. The full bay is used for the assembly and the cutting and bending will happen in the half bay.

Chetan Vora: Last question for my end, what's the order inflow for the year?

Bhavesh Shah: We have booked close to around 300 crores in H1. We are seeing a similar traction for H2.

Moderator: The next question is from the line of Harshil Solanki from Equitree Capital.

Harshil Solanki: My question is to Mr. Dsouza. Sir, can you please help us with your vision for the company for the next 3 to 5 years, which industries and products would be your focus area? Secondly your export mix currently 17% and how do you plan to increase the exports? What is the right to win in the export market?

Reginaldo Dsouza: Yes. So, articulating my vision for the company, we have started out a very clear agenda. #1, we need to diversify in different geography and product categories. Mainly I talk about exotic metallurgy, so it will give a higher value equipment product mix for us. Second is acquiring technology of proprietary products. Third, expanding the capacities and capabilities. So, Kheda is a clear example of how we are going to increase our capacity and capability because of the sheer size of that facility. As you all know it's under the hook, 17 meters, which gives us a huge leeway in terms of getting more into a heavier complex and larger diameter equipment. Of course, last but not least the strengthening of our organization to build up a strong and capable team to take business to the next level of growth. So, these are broadly the vision articulations going forward. In terms of what do we see as the growth rate with the addition of Kheda along with our existing facility which as we said should be commissioned by you Q4. We expect that we should be able to grow at a CAGR of over 25% for the next 3 years.

Harshil Solanki: Got it sir. Just a follow up on that. So, you mentioned you are looking to diversify across industries and products. How we will do that because historically we have been focused on petrochemicals and refineries. How do you see we winning orders from other industries and other products?

Reginaldo Dsouza: As I said, the first and foremost in the existing product category that we have, the first priority would be to move up the value chain in terms of higher thicknesses. With the new facility of Kheda as I said it leaves us a good leeway in terms of making higher thicknesses than what we are doing today and also larger diameters and the ODC consignment, that's #1. Second, we have the clean room order facility in the Odhav facility that we are doing now. We are focused on building a pool of order for exotic metallurgy, namely titanium and others where we could increase the share of exotic metallurgies thereby giving us larger top line and as well as a higher value per equipment. More moving towards higher in the value chain, both in terms of thicknesses and also in terms of exotic metallurgy. Also having said this, from refining we are moving more into the pet-chem side as the market is in line. Also, we are looking at some equipments that we could make for hydrogen which is the future going forward.

Moderator: The current participant is disconnected. We will move to the next question from the line of Kunal from Carnelian.

Kunal: So, 2-3 questions I had, first question was that Mr. Dsouza what are the challenges you see with Anup presently and you did talk about the vision. So, challenges which you believe which you kind of need to look into is the first question. The second question you did mention your experience with various process equipment. If you could elaborate a little bit what specific process equipments would Arvind, Anup basically kind of look at going ahead and what are your thoughts on that? The third question been, what is the capacity utilization right now in this 500 odd crores order book, is it factored in something from Kheda as well?

Reginaldo Dsouza: In terms of challenges for Anup, going forward of course as we grow having a strong and capable team to lead this business into the next lead, it would be my first priority. That's the challenge that we have. In terms of as you all know on time delivery has always been a strong USP for Anup Engineering. As we grow into the next growth cycle, we need to maintain the on-time delivery for the business and also the competitiveness. As we grow, we need to balance out the on-time delivery performance, the competitiveness and maintain it so that we are able to take the next leap into the future and also of course streamlining the entire org structure to be capable of delivering this result would be on topmost of my agenda. Also going forward, set these processes and systems to take care of the new challenges that come our way as we move along into higher value chain in terms of complexities and the higher value per equipment. Also, as we have articulated, exports is going to be a strong driver for us going forward. We need to channel our resources and strength, build capabilities to be able to take this challenge of growth in the export market. So, broadly these would be the challenges which we are very well aware of. We are working towards it and that would be the topmost agenda for me to take this business forward.

Kunal: You mentioned on the people part, so it's more to do on the technical side, senior level, sales, marketing. If you could elaborate a little bit on that front would also kind of help.

Reginaldo Dsouza: So, when I said we need to build capabilities, basically when we move towards higher complexity in the value chain, we need to build of course the technical capabilities and also the softer skills when we move into the export side of the business. Having said this, I would like to make a note that I'm pretty—as I've taken over the business I'm pretty—happy with the team that we have. It's only a matter of consolidating and building the capabilities for higher complexity of equipments in the value chain which we already have a plan in place and we are working towards it and soon it will be in place in the org structure.

Kunal: On the process equipments part, you did allude to your opening remarks. If you could elaborate a little bit on that also, I mean what exactly would be our focus area other than the heat exchangers and how big and fast could this opportunity unfold. Also, the areas where we are looking for the technology either acquisition or collaboration?

Reginaldo Dsouza: Kheda, the sheer size of the plant that is 17 meters under the hook and 25 meters wide, 200 meters long. That itself signifies the aspirations that we have when we set up this plant. Broadly when I mentioned that I have an experience on the process equipment side, it was mainly on my experience with the early organization where it was more to do with high level of equipments in the value chain, especially higher thicknesses, say for example (+200) of shell thicknesses. More on the exotic metallurgies, in terms of titanium and others and Kheda has been designed, the whole focus going forward would be to have heat exchangers, primarily being based out in our existing locations. The Kheda because of the sheer size, reactors and pressure vessels would be planned for Kheda. As you would have seen from the product mix that we had historically, close to about 75% around we were always on the heat exchanger side and the balance would add up to about 20%-25%. Going forward with Kheda in place that's the change that we want to bring about. We want to keep exchangers to about 60% and the balance is where we want to increase it, so that we do due justice the capabilities that we've built up at Kheda locations.

Punit Lalbhai: Kunal, I think three strengths we've historically had as Anup. I think our competitiveness, our on-time delivery and our quality. We've hardly had a quality complaint for the last 5 years. I don't think we've ever missed a customer CDD. I think preserving this is going to be key to looking to the future. I think as Regie mentioned, just the organization gearing up in terms of systems and processes and getting the right people to have a very fast and successful scale up of Kheda. I think these are the challenges that we need to watch like a hawk and deliver. I'm extremely happy with the one week to 10 days that Regie has taken over already, a lot of this groundwork. He is preparing the master plan and I'm sure he will unveil more of this in the next call when he has had a full look at the current status and us going forward. But we are in a good place is how I would describe our start point from this moment onwards and building those capabilities we have a large degree of confidence. Getting into proprietary equipment there are several conversations happening which of course we will inform you as they become more concrete. So, thank you for those questions.

Kunal: Just two questions which I mentioned in the first also. So, what is the capacity utilization right now? I mean this 530 odd crores order book which we have is for Odhav only. There is nothing pertinently…..

Punit Lalbhai: Capacity is a moving target because average equipment value is also changing all the time. So, the same number of equipment can deliver a higher turnover, if your average equipment value goes up. It's been constantly going up every year. We are close to full right now. But we will continue to remain close to full with the higher turnover because our average equipment value is going up. Because equipments are all different at different, different at different points in time, different equipment will take up different area under the crane. It's not as when you think of an engineering bay you've got to think of time under the crane which is almost 100% right now and it will be 100% but deliver a much larger turnover going forward because of the quality of orders that we have already won. That's how you should think about capacity. I think the additional stuff that will add to this is the clean room at Odhav and if we are aiming to start with the (+500) crores opening order balance next year, a big chunk of that will have to be done out of Odhav because there will be a ramp up that we will see at Kheda. Only towards Quarter 3. Quarter 4 will we start seeing good levels of utilization because we'll have to get the qualifications, we'll have to get the customers in, we'll have to sort of get all the approvals in place for various different types of equipment. So, that all will take some time. Next year towards the end of the year is when Kheda will start delivering on its full capacity.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investment.

Ravi Naredi: It is good, company has good order book. But EBITDA margin reduced by 530 points in 6 months and reduces to 11.8% from 16.8%. What is your commentary in future?

Punit Lalbhai: The commentary in the future is that margins are going to be back to the previous levels. This was due to a very extraordinary situation that the industry hasn't seen in—at least my memory—

where overnight because of the war situation prices of metals soared and especially in certain categories like nickel-based alloys it went up by how many percent Regie, almost 200%?

Reginaldo Dsouza: Almost doubled.

Punit Lalbhai: It more than doubled. If that situation happens in a span of 10 days 15 days, it's very difficult to maintain the margins. However, the good news is as I mentioned earlier that the new orders that we are willing after this extraordinary situation has corrected are back at the old margins. I would not worry too much about margins as we go forward.

Ravi Naredi: We will resume this margin by next year Quarter I, right?

Punit Lalbhai: Yes. It should get very close, now exact numbers as the orders get finalized maybe this question will be answered with the best certainty once you ask me after the Q3 call.

Ravi Naredi: As you said due to ongoing CAPEX at Kheda and working capital requirement, you expect CAPEX loan, how much is the CAPEX loan plan and will you raise debt only or equities also in pipeline?

Bhavesh Shah: So, the requirement for funding the working capital and CAPEX would be close to around 20 to 25 crores and we will be taking debt for it.

Punit Lalbhai: But we also feel that this will be very temporary in nature and our objective of being a zero-debt company is still very much in force. This is just a temporary mismatch of cash flow for which we are taking the loan.

Ravi Naredi: But sometimes it is good when you take the debt for expansion of company, it is good.

Punit Lalbhai: A lot of different people will have different philosophies on that part.

Ravi Naredi: No, it is always good.

Punit Lalbhai: I will assure you that we will not stop our growth for want of funds.

Ravi Naredi: Yes. Instead of raising equity debt is always cheaper.

Bhavesh Shah: Yes. We will go for debt.

Moderator: The next question is from the line of Ankur Sanwal from Money Matter.

Ankur Sanwal: I wanted to ask that for developing new products are we going to have any technical assistance from other companies, collaborations for technical knowhow for making new products?

Reginaldo Dsouza: So, I'll answer that question. So, talking about technology, we are already licensee it to Lummus Heat Transfer for our Helix Heat Exchangers which form a large chunk of our heat exchangers that we manufacture in the current facility. We would like to expand that going forward and be licensee for such similar technologies going forward, so that we can improve our portfolio into these proprietary items so as to be able to compete better and improve our order book positions. So, the focus is there. We are already as a licensee and going forward we have more technologies in mind we want to take forward.

Moderator: The next question is from the line of Bhagwat from Prosperity Wealth Management.

Bhagwat: I would like to better understand the decision of urban poor, to start a separate engineering division. Why not have the new business as an extension of Anup Engineering itself? Is this new engineering decision a significantly different business than Anup?

Punit Lalbhai: So, I think we are in a very exploratory phase right now. We have not yet zeroed in on the opportunities. See, right now the bandwidth of Anup team has to be fully utilized to delivering this growth, delivering the right margin, delivering this transformation where exports constitute a very large part of our order mix, delivering a future where our dependence on petrochemicals and refining is not as high as it is right now and getting phase 2, phase 3, phase 4 of Kheda off the ground. So, there is more than enough to do within Anup for Regi and his team to handle. That is why we have taken Rishi, I mean we have sort of charged Rishi with looking at opportunities, be they logical for Anup, if they are logical for Anup they will be transferred to Anup. If they are something that is complementary but does not belong in Anup, we will do it elsewhere. So, just this scanning the space and thinking strategically about the space is the initiative that Rishi is going to lead, and it is best done by somebody who doesn't have the mandate and compulsion of delivering on the Anup agenda. Because we don't want to dilute the focus on Anup. We have to correct us, we have to improve our systems and processes, our project execution, we have to go and win new technological tie-ups, we have to gear up for the export market, so we have a big agenda in front of us. That is the logic behind having these separate verticals. One is an exploratory vertical at this point and once those opportunities become real, if they are adjacent or if they are directly relevant to Anup of course we will not build them separate. They will get transferred here.

Bhagwat: So, it's a completely different business, not somehow very similar to Anup's business?

Punit Lalbhai: Yes, but we might stumble on to some opportunities that might be relevant to Anup and there having those preparatory dialogues, getting that from zero to one, all that requires a very different type of focus which is better done separately. And once the opportunity becomes real it can be housed anywhere. So, this will only help Anup rather than any concern of it creating a parallel organization. Rest assured that we will never do anything to sort of compromise Anup's positioning.

Bhagwat: If you could give some color on the business model of the new division?

Punit Lalbhai: So, right now it's only a team of people that's going to scout for strategic opportunities and those strategic opportunities, I mean this team is a week old. So, again, I think this question is better asked once the team has articulated its thought process. And since this is an Anup call we'll discuss, how it is relevant to Anup, that is a fair question and my answer to that is that it will only add opportunities to Anup's quiver of arrows and help it achieve its vision.

Bhagwat: Second question is what would be the top line and margin anticipated for FY23 and FY24 as a whole?

Punit Lalbhai: So, as we mentioned as Regi was talking earlier, I think we are going to aspire for that 24% kind of margin on a 25% annualized CAGR growth. So, that you can easily do the math, right?

Bhagwat: As previously we have been guided that Anup will reach 400 crores top line, so is that guidance still **(Inaudible)** (36.42)?

Punit Lalbhai: So, we are guiding now that our visibility is of 225 crores in the H2. So, that will leave us slightly short of 400 crores, is what we are feeling as of now. Of course, there will be every effort to do better.

Bhagwat: From FY24 Q1 onwards the margins will improve as you have discussed?

Punit Lalbhai: Exactly.

Moderator: The next question is from the line of Sonal Minhas from Prescient Capital.

Sonal Minhas: I had two questions. The first one, just wanted to understand the price escalation mechanism or the contractual escalation mechanism you have with your clients. Because as you mentioned the prices of raw material went up by 200%. So, what gets factored in, what gets passed on and how are these negotiations happening given the times of turmoil? So, I will just pause here. I just want to understand that first.

Punit Lalbhai: So, there are two types of customers. One is tender business where unfortunately the industry is structured in such a way that there is very little opportunity. Once you have bid and you are L1, you only have a choice of accepting the order or rejecting it, right? Then there is very little actually price escalation built in. But that usually doesn't matter because the window between becoming L1 and actually getting the PO is not inordinately long. So, only a massive spike in a very short period of time can result in something like this. If you look at Anup's history, we have not faced something like this in the past and even the world hasn't faced something like this in the past. That said, we tried our very best to go back to customers and request. But contractually a lot of those provisions don't exist and when they don't exist your negotiating power is low. That said, we managed to get some marginal increases here and there.

Sonal Minhas: That's for Indian as well as international customers?

Punit Lalbhai: No, this is tender business. So, I am coming to others. Then there is non-tender business where it is a one-on-one negotiation where a lot of these mechanisms are built in. Now it so happened that a bulk of our orders that we clicked were very attractive tender orders. So, it was just a matter of chance that the percentage of orders at that point in time when this escalation was happening a good chance of it was this tender business. So, there we were rather helpless on cost escalations. But going forward we would also like to have a good mix between tenders and negotiated contracts with private companies. Generally, there like in other standard contracts there are escalation clauses. Of course, there are caps to all these things and every cap would have been sort of blown out of the window with the kind of escalation that happened this time around. But it would have been slightly better had those mechanisms been in place but as I said because most of those orders were tender orders; we got particularly badly hit. That said the kind of effort that the team has put in to come to the current levels of margin after the level of escalation that had happened is worthy of nothing other than applause because they did a lot of hard negotiations, they did a lot of work on design, did a lot of work on cost and efficiencies to be able to recover significant margins. It was looking much bleaker than its actually landed up.

Sonal Minhas: No, I appreciate that this is a tough time but I just want to understand because the commodity prices have been up for the last 6 months and we've been accumulating our order book since then. So, there would have been a time where you could see that the prices are going up and maybe L1 during this period or maybe you would have ended up rejecting some orders based on your bids because…?

Punit Lalbhai: So, we did reject a few orders but then we also have to deliver on the growth agenda so you can't reject everything and these are good customers, these are good orders and this is a short blip in time. So, we just have to smile it out and forge our way through a difficult patch and that said 20% if you compare to the overall industry, it's not our Anup great margin, it’s a decent margin.

Sonal Minhas: It’s better than everyone I think a lot of people actually, maybe it’s in the Top 10 percentile.

Punit Lalbhai: It is a bit rich to be rejecting orders and upsetting customers.

Sonal Minhas: Just trying to understand you said you are growing and expanding your exports business. When you compete with certain larger players on the exports market, what are the technical criteria basis which you right now get rejected or you have kind of a lead time to qualify which you see basically becoming right for you or they're getting switched on for you in the next 2-3 years?

Punit Lalbhai: There are two things that we have to keep in mind here. #1, we haven't really even courted those customers so there's not a situation where we are getting rejected. It's that we've been full with this set of customers with good margin that there's been not much opportunity to go and see if you go to an export customer you better be able to deliver, right? So, when you are already blissful with a very decent margin and your capacity expansion has not yet fully happened that's not the time you go and try it a bunch of people. So, that's number one. Number two the Odhav facility is constrained from its location perspective also. It's landlocked and the space is very limited so a lot of the export customers that require large equipment etc. would not even consider this manufacturing location. So, we've not gone to that set of customers also which we know that if they come and see the facility, they will have the first question around logistics and that will be the, before they even look at our systems, processes and shop floor, it would become a constraint. So, these are the issues of why we have focused on this set of customers which itself is giving us good bottom line. I think the right question to ask is what will happen after Kheda and there I can assure you that any export customer will love the infrastructure that we are putting in place. It's probably, its going to be a best-in-class kind of infrastructure.

Sonal Minhas: Is there a lead time there? Because what I understand especially in your industry, there are with the export customers there are, you have a lead time to qualify for taking orders and it pans out in 2 to 3 years even then?

Punit Lalbhai: Yes, but there is also existing. So, we do have export customers already. We are qualified for a lot of export customers and those customers can start utilizing the Kheda facility. While new customers will send their people, they'll do their inspections, they'll get confident about our capability to deliver and then place orders. There are people that already trust us where we have a 100% track record already. Those people will be quicker to place orders and part of the 536 crores that we already have, there are some orders specifically taken for Kheda which will start up in Q1. And we don't want Kheda to ramp up beyond a certain pace because we want to be able to digest the orders that we get and continue our promise of 100% on-time delivery. We will take it at the right pace and Q4 is when the action will start to happen on getting newer customers qualified. One of the things where we are very well placed is that Regi has relationships with the best of all customers globally and they are eager to be able to come into India and have a new supplier because today there are only two or three people who can service their needs and the shift away from some of the South East Asian and Chinese supply chains is only going to add to that necessity of looking for more options in India. We feel very confident with the kind of infrastructure that we are creating, with the fact that Regi has known some of these customers whose orders we would want for better part of the last 10 years and has very good relationship and many of them are excited by Kheda's development. These two factors combined makes us very confident. That said what we have to do is ensure that Kheda ramps up properly. We have a lot of work to do. We have to build the team, we have to ensure that our project management from here to the end of Quarter 4 is done well so that there are no additional delays and we have to ensure that we are taking the right orders at the right time so that our ramp up is seamless and we continue the promise of being competitive, delivering 100% on-time and not having any quality issues which has been our hallmark till now.

Reginaldo Dsouza: So, Sonal just to add to that whilst we are preparing a…

Moderator: The next question is from the line of Rajesh Jain from NB Investment.

Rajesh Jain: It's regarding the tendering and the standard orders that we have received. Is it fair to say that all these tendering businesses that we receive, it is from the PSU only?

Punit Lalbhai: Yes, largely PSU, you are right.

Rajesh Jain: Just to get an idea maybe in FY22 or in H1 FY23 how much of the revenues are from these L1 type of orders that we have executed?

Bhavesh Shah: Predominantly we are right now all the refining and pet-chem orders are so you may say domestic orders are all L1 category orders.

Rajesh Jain: Secondly in the last call it was announced that we had received one big order worth more than 100 crores from a refinery. So, just curious to know one, was it for heat exchanger and was it only one heat exchanger or was it more than one?

Bhavesh Shah: No, it was 36 heat exchangers.

Rajesh Jain: My next question is we had a good track record of keeping the debtor days within 100 days and we know last 2 years things are not normal. But is it possible that we bring it back to 100 days maybe in the current year or next year or will that 150 days has become the new norm?

Bhavesh Shah: Yes. In case of domestic customers since advances are less you may see this continuing this way. If we go more in exports then our debtors' days will come down.

Rajesh Jain: You mean to say till we commission Kheda and concentrate more on exports, till that time the debtor days would remain at the current level?

Bhavesh Shah: Yes.

Rajesh Jain: Regarding Kheda plant we have expansion in three phases. As per the existing plan so when is this third phase is expected to complete?

Punit Lalbhai: Third phase?

Bhavesh Shah: Yes, the third phase we are expecting to complete by FY26.

Rajesh Jain: FY26. After that do we have some more space available there?

Bhavesh Shah: Yes, Kheda FSI is much higher than what all the three plants put together it is.

Rajesh Jain: So, that means is it possible to put one more bay?

Punit Lalbhai: We can put a total of seven such bays. At Kheda we are doing 1.5 right now.

Rajesh Jain: In the Phase-1 but for all the three phases…?

Punit Lalbhai: Each phase we can do about 150 crores.

Rajesh Jain: No what I was asking is in the three phases that you have planned as of now how many bays we are going to put up?

Bhavesh Shah: 1.5 bays in first phase.

Rajesh Jain: Phase-2 on Phase-3?

Bhavesh Shah: It would be kind of equivalent maybe 3 and 2.

Rajesh Jain: Agreed. That means we would be having around three plus two, five. Another two bays we can put up?

Bhavesh Shah: Total seven bays.

Rajesh Jain: My next question again about the Kheda. Once it is commercialized with the kind of overheads that you would be having there, how much time do you foresee that it will take to breakeven at that place?

Bhavesh Shah: Breakeven at Kheda would be so in phase wise we are seeing close to around 75 crores as a breakeven point, for first phase and then going forward since we'll be adding up the facility in a phase manner, the breakeven point will change.

Rajesh Jain: These 75 crores of revenues that you can generate in FY24 itself from Kheda?

Bhavesh Shah: Yes, we are targeting that.

Rajesh Jain: And lastly just wanted to know what would be the interest and depreciation cost for FY23 and '24?

Bhavesh Shah: Of FY24 the depreciation…?

Rajesh Jain: The current year?

Bhavesh Shah: Yes, FY23 the interest cost would be just maybe at around 50 to 60 lakhs and depreciation would be close to around 10-11 crores. Kheda will come the next year only and going forward in FY24 we expect interest cost to be 2 crores and depreciation to be at 20 crores.

Punit Lalbhai: Bhavesh bhai you circulate the exact numbers, if they are released.

Bhavesh Shah: Sure. I will be happy to, if you just send across the mail for such questions, we'll be happy to reply it.

Moderator: We move to the next question from the line of Anurag Patil from Roha Asset Managers.

Anurag Patil: For Kheda Phase-1 how much is the total plant CAPEX and how much we have spent till now?

Bhavesh Shah: The plant CAPEX is 115 crores. We have spent around 60 crores till date.

Anurag Patil: What are the typical asset turns for this facility?

Bhavesh Shah: We are looking at asset turn at good levels at 1.5 to 2 turns. In initial phase it would be 1.5 turns since we are developing a complete facility of Kheda along with it. Going forward it would be two turns.

Anurag Patil: For our existing products; what will be the total domestic addressable market size for us?

Bhavesh Shah: It depends on the CAPEX cycle. Right now, we are seeing a good capacity expansion both at refining as well as pet-chem. So, right now, the overall inquiry pipeline so just to give you a rough idea our heat rate is close to around 18% to 20%.

Punit Lalbhai: On market size we can circulate. We have that data; it's just not handy so we don't want to talk a wrong number. We'll get back to you on that one. We'll make a note of it. I mean it's a very large market.

Moderator: The next question is from the line of Suhrid Deorah from Paladin Capital.

Suhrid Deorah: I have been tracking the company for a couple of years and the question that's always in my mind is really on the demand side. I have not been able to get a grip on what is driving the confidence for this new expansion because the existing facility I believe can do about 500 crores of turnover which has not yet been achieved and it seems to me that the revenue is still mostly concentrated with heat exchangers and the refining sector. Could you just maybe this has been answered earlier today I'm not sure but could you just help me understand at a high level how you're thinking about it?

Punit Lalbhai: I'm not sure I fully understand the question. If I were to rephrase it, I think what you're asking is that why haven't we have been able to achieve 500 crores in Odhav when we say the capacity is at 500? Is that the question?

Suhrid Deorah: Yes, that's the first part and the related part is that we've not been able to hit that and most of the revenues will come in from heat exchangers and refining and there's a lot of emphasis of cost on the new facility of Kheda. So, how are you guys thinking about?

Punit Lalbhai: Refining and petrochemical specifically is here to stay for the next 10 years despite all the focus on renewables. It's not in a category that's a sunset category by any means. That's what our analysis of the industry says. While it is important to start building newer avenues for diversifying our segmentation of where we get our orders from, oil and refinery we have an excellent track record. We have very good relationships with customers and it's here to stay. So, that's not a concern area. Now coming back to the first part of the question, 500 crores is a recent development. We have been adding capacity at Odhav every year. What, the way you have to think about it is that our average equipment value 2 years ago was I think in the 1 crores range. Now it is 2.7 crores on this order book. While we were doing between 150 to 200 process equipment pieces, we are still doing those 150 to 200. So, we are utilizing the full capacity but the turnover is going up because the average value per equipment is going from 1 to 2.7, right. That is a gradual process because we added the Heavy Bay last year. This year the clean room is coming up. All these things will allow us to get higher average equipment value. We'll still continue to do that 150 to 200 equipments from Odhav. Does that clarify it?

Moderator: We'll move to the next question from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: Just to sum up the things. The low margin order booking will get exhausted by Q4 of this financial year and we would be trying to return to our previous EBITDA margin of 25% in terms of the orders which we are booking currently and going ahead. This should be the sum and substance in terms of the margin profile?

Punit Lalbhai: With one correction. The lower margin orders which is still industry leading. But you are right I'm just being a little facetious here.

Saket Kapoor: Come again, I missed that point you were trying to make.

Punit Lalbhai: I just said yes you are correct but the low margin that you're talking about is still a good margin.

Saket Kapoor: It's a good margin but it was not historically the one which we used to grow. That was my reason. I should have corrected that.

Punit Lalbhai: No, I'm just joking.

Saket Kapoor: Not an issue. Secondly coming to the new growth would come only from the Kheda contributions going ahead so that we would…?

Punit Lalbhai: I would not say that. Until we reach 500 crores, Odhav will stabilize at 500 crores. Is that correct Regi? You would like to answer that question?

Reginaldo Dsouza: Yes, so Kheda with the current capacity that we built in and the product portfolio that we are looking at going forward we have a fair a good understanding that Odhav would be to the tune of 500 crores and beyond that is where Kheda will chip in and in the first year we are looking at 75 crores to 100 crores turnover from Kheda with 1.5 bay commissioning, that's going to happen in Q4.

Saket Kapoor: But the revenue is going to kick only for FY24 and not for this?

Punit Lalbhai: We are talking about FY24 only.

Reginaldo Dsouza: That's correct.

Punit Lalbhai: And it will take some time to also go to 500 in Odhav so both those things will happen parallelly. Kheda will start and Odhav will start going from the current level to 500 crores, that is also in process.

Saket Kapoor: When we look at your capital work-in-progress, there is an increase from 30 crores to 60 crores. That is roughly in terms of the money going through the Kheda capacity?

Bhavesh Shah: Yes, all CWIP I mean (+95%) is all about Kheda.

Saket Kapoor: When we look at the other current asset that has gone up from 13 crores to 33 crores. What would this, could you explain to us the reason for the same?

Bhavesh Shah: The current assets?

Saket Kapoor: Yes, other current assets were 13 crores for 31st March and now it has gone up to 33.3 crores?

Bhavesh Shah: Just a minute. I'll get back to you on this.

Saket Kapoor: And employee cost has also gone down, if we compare last year number, we had an employee cost I think of 7 crores and this time it is 5 crores. What explains this the reduction in the cost?

Punit Lalbhai: There is a lot of when you look at the, there is a part of employee cost that is also variable and because we have had a low Q1 that's why that expense is also lower. That will correct once we are back to full capacity.

Saket Kapoor: Just to get an understanding, what should be the ideal package for Mr. Dsouza as a CEO with that the industry levels or because of his expertise and his experience if you could give some more color to that?

Punit Lalbhai: I think Regi comes with some of the best industry credentials. So, whatever package we will do now and going forward will be concomitant with his capabilities.

Moderator: The next question is from the line of Ankit Babel from Subhkam Ventures.

Ankit Babel: My first question is as you mentioned, Bhavesh bhai mentioned that the breakeven point in the Kheda capacity is around 75 crores and since you people are expecting a revenue of around 75 to 100 crores from Kheda in FY24. So, I believe that then in that case how are you going to achieve your 24%-25% margins for the company as a whole because these 75 to 100 crores revenue might not have that margins?

Bhavesh Shah: At overall levels what we are seeing is about 100 crores from Kheda and 400 crores from here so 400 crores at Odhav will be at the normal level and 100 crores we will be generating about the same level. So, fixed cost over at Kheda we are estimating close to around 15 crores to start with.

Punit Lalbhai: It's very difficult to predict all this quarter-to-quarter. We should look at, the broad guidance that we are talking about here is barring the mismatches of the execution ramp up. Quarter-to-quarter there may be variations in this but overall if you look at three-four quarters combined and if you look at the end of the scale up process, we should land at that 24% margin.

Ankit Babel: I understand. I'm not talking about quarter-to-quarter; I'm talking about the full FY24, full year. In that year only a 400 crores revenue might generate a 24%-25% margin which is the Odhav. These 100 crores from Kheda might do hardly what single digit? I don't know. Overall, how are you going to manage the margins at those levels? Or in case you would like to tell me that Odhav would do a 27%-28% which also you people have done in historically. So, just wanted your view on that?

Bhavesh Shah: We are talking about the consolidated margins. The individual margins will be worked out accordingly.

Ankit Babel: No, so are you saying that the Odhav has the capacity to do a 27%-28% kind of margins?

Punit Lalbhai: No, you are right in saying that maybe the consolidated margins for the next year are likely to be slightly lower. But we have to bear in mind that we are overall booking orders at 24% even if you look at Kheda. I mean when we talk at 24%, we've already made some assumptions around Kheda. Now anything that is an execution related extra cost that we incur that may actually happen. It's very difficult to sit right now and tell you that everything is going to go absolutely to plan and what we have planned is almost 100% going to materialize. Yes, you are right it may go lower because of some execution related things but we have to allow for all of that in the ramp up of any enterprise. But at the order level with Kheda costs factored in, we feel that we are taking orders at 23%-24%-25%.

Ankit Babel: Yes, I was just trying to understand the mathematics. That's okay, I understand.

Bhavesh Shah: Understood, we will get back to you once we freeze up the budget for the next year.

Ankit Babel: How come a lower Q1 revenue impact your employee cost in Q2? I didn't get that.

Bhavesh Shah: Pardon?

Ankit Babel: How come a lower revenue in Q1 impacts your 2Q employee cost?

Bhavesh Shah: No, the employee cost is the variable component which has been identified based on the KPIs which has not been disbursed based on Q1 performance. So, it will be disbursed as and when it accrues, it gets factored in the salary cost.

Punit Lalbhai: So, I mean I stand corrected. The main reason for which the employee cost has come down is not because of the variable component. There must be some factor of that because of Q1 but you were actually talking about Q2 numbers. So, in Q2 normally Q2 is when we pay out variables. This year the variables got a little delayed. You will see it come in Q3.

Bhavesh Shah: The question which one of the participants asked about the increase in current assets? I mean this is because of increment. The vendor advances which we have paid for which the material is going to come in H2. So, that was one answer which we haven't given so that's it. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Punit Lalbhai for closing comments. Over to you sir.

Punit Lalbhai: Thank you very much for being on the call. Look forward to seeing you all next quarter.

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