"The Anup Engineering Q4 FY-23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q4 and 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 this 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 and unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risk 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 the Company has uploaded the "Results, Press Release, Investor Presentation" and also the outcome of the board meeting on the website of stock exchanges and website of the Company.

I now hand the conference over to Mr. Punit Lalbhai. Thank you and over to you sir.

Punit Lalbhai: Very good afternoon to everyone on the call. It's a great pleasure to interact with you all today.

We've seen a very uncertain and difficult year due to the global geopolitical situation. In that I am very happy to say that the team at Anup has come out with a good performance.

To take you through the details of the year and the quarter, I now invite our CEO – Mr. Reginaldo Dsouza to give his presentation and then we'll all jointly take the calls. Thank you.

Reginaldo Dsouza: Thank you so much Punit bhai. Hello everyone. Greetings from team Anup. It's wonderful to be with you all again as we close the year FY23 and embark on our growth journey. We are truly grateful to all of you for your support, your confidence in our business and being with us as we take this growth journey.

The year FY23 has surely been a challenging year with geopolitical uncertainties, supply disruptions, volatility in raw material prices, impacting even the logistics side with challenges on shipping availability and cost. But with a strong resolve of our spirited team at Anup and our partners we were able to sail through and end the year on a decent note.

Talking now on the market side; the story has been favorable with many projects kicking in and also order release from our customers being concluded. We booked around (+500) crores new orders in the year FY23. This has ensured a healthy opening balance of around (+500) crores as we began the year FY24. This favorable trend has continued helping us book over 150 crores already in this year till date. Of course, most of them executable in the year FY25.

Now talking about our performance in Quarter 4:

We achieved a revenue of 144.2 crores against 100 crores quarter-on quarter of last year. That's about 44% improvement over last year with an EBITDA of 30.2 crores against 23.8 crores quarter-on-quarter that's about 26.8% improvement. For the year ended March, 2023 if you look at the whole year FY23, the revenue stood at 411.3 crores against 288.2 crores in the year FY22. That means it's a growth of about 42.7% to be precise with an EBITDA of 82.7 crores that's 20.1% against 70 crores in FY22 at 24.3%. That's a change of about 18.2%. PBT is at 70 crores that's 17% against 61.1 crores last year, that's 21.2%. That means it's a change of about 14.5%.

The PAT is at 51.4 crores at 12.5% against 62.1 crores that's 21.5%, a drop of about 17%. But that's mainly due to the tax reversal that we had in the last quarter of FY22 of about 15.5 crores. If you take a net off of the tax reversal our PAT for this year stands at 51.43 crores against 46.49 crores last year. We have made some improvements even on the PAT net-off the tax reversal.

The working capital has improved from 155 days to about 148 days and also, we have maintained our position of almost being debt free even with our new investment in the Indian facility at Kheda.

Our exports revenue stands at 19% which I did mention on the call last time that this is a very important factor for our business. It stands at 19% for FY23 and on the product portfolio side heat exchanger still remains dominant at about 74%. We are almost there year-on-year on heat exchanger component being around that 74%-75% mark. This was the performance of FY23.

Now how do we see ourselves in FY24:

As I mentioned with a very healthy order book of about 530 crores opening, we expect to continue our growth of 25% to 30% with an annualized EBITDA of around 22%. Our export is expected to grow to 30% of our sales revenue. This is what I said earlier last year it was 19%. We expect it to grow to about 30% in this financial year. That is FY24. What's important for us, we will continue to focus on consistent quarter-on-quarter performance. I'm sure you would have seen our last three quarters, which were all (+100) crore and we as a team wish to continue and ensure this consistency going forward.

On the capacity front:

I am happy to share that our new facility at Kheda is now ready with the trial production on. We are placed very well on that front which we've been discussing over the last couple of calls. This new Kheda facility which is about 40 km from our existing facility in Odhav will surely help us boost our revenue in Quarter 3 and Quarter 4 with the first dispatch from that plant expected in August, 2023.

I'm also happy to share a dividend of 150%. That's Rs. 15 per share which translates to about 29% of PAT. I'm sure this clearly demonstrates our confidence in the business, its growth journey and what the future holds for us. With this I end my small briefing. Thank you once again for being strong supporters in our growth journey and for giving us your valuable time today and a patient hearing. Thank you once again and we will be happy to take your questions if any.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Tushar Raghatate from Kamayakya Wealth Management.

Tushar Raghatate: I just want to understand the revenue potential of the Kheda facility going forward and also the incremental bay which we can add every phase we come going forward. That is my first question.

Punit Lalbhai: Regie I think you are best placed to answer the potential of the CAPEX that we have done plus how we are looking at the future.

Reginaldo Dsouza: That's correct. As we discussed over the last call, in Kheda in the first phase we have this 1.5 bay literally which we have built and which is operational now, ready to kick start commercial production. In the first year we are expecting revenue of about 60 crores coming from that plant. Of course, that's the first year, so we need some time to stabilize and that's the reason there are 60 crores for this year. Going forward from next year on when we have the full complement of 12 months at our disposal and the plant completely stabilized, we can look at a turnover of (+160) crores. Of course, that all depends will all depend on the product portfolio that we are able to get from the market. But at a broader level I would say 150 to 200 crores is what we can look at here.

Tushar Raghatate: And the guidance which we gave of 25% to 30% CAGR for next 2-3 years, what would be the margin for those? In the past you have mentioned the long-term guidance of 1,000 crores till FY27, so do we hold that?

Reginaldo Dsouza: Yes, we very much hold that. Even at this 25% to 30% growth if you work up the arithmetic it would come to that. So, we hold on to that. On the margin side, we are looking at as we grow—obviously as I explained last time over as we grow—we will have to move to a little more complex and higher metallurgy product where we are expecting to maintain a margin of (+22%).

Tushar Raghatate: One last question. This IOCL is expanding their capacity from 3.2 billion metric tons to 6.8 billion metric tons in the next 3 to 5 years. They also came up with the Petchem facility of 61,000 crores in Odisha. I just want to understand how the bid pipeline is looking and what would be our conversion from that bid pipeline in the percentage terms.

Reginaldo Dsouza: So, you're right in whatever you mentioned about these projects. In addition to that there are many projects which are kicking on. On the market side we see a very good traction. We are good on that. Overall, on the inquiry side, the conversion side we are at about between 15% to 20% conversion. That's more to do with our choices that we make. Of course, it can be higher if we have to make a choice but considering our growth aspirations and along with the profitability that we desire, the conversion is about 15% to 20%.

Moderator: The next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: My first question is on, can you give some sense of the sector split, end industry split for your business currently and the new orders pipeline etc., which are the sectors that you are seeing more traction in?

Reginaldo Dsouza: On the sectors oil and gas and petrochemicals has always been dominant for us. Even in this order book that you look at, you'll see a dominant portion coming from oil and gas and Petchem. But having said that chemical industry is also growing and lends a lot of growth for us. So that's about 11% right now. But of course, dominantly it is oil and gas and petrochemicals.

Naysar Parikh: In terms of competition, bunch of people are obviously growing or aggressively increasing capacity in your space as well, including people larger players like Tata Projects and all of that. Are you seeing increased competition and pricing pressure on your products in the market?

Reginaldo Dsouza: So, let me just make a small clarification there. Tata Project is generally our customer. They are the EPC companies, so they are our customers. Of course, as you rightly said the capacities are growing but in the same breadth the CAPEX cycle is on the positive side today. So based on our analytics we are very confident of the share of growth that we need in the market.

Naysar Parikh: Last question on the margins, you obviously mentioned 22%. In this quarter also it was a bit subdued but if we look at your order book that you have 530 crores and assuming the current price as they are, how do you see the margins on that for the next year or how should we think of that and is there any scope for improvement over there?

Reginaldo Dsouza: In this current year that we speak about, FY24 we see EBITDA levels at about 22% as I mentioned because we completely have the order booking on our hands today. We very clearly have a handle of the numbers. Going forward as I mentioned our growth aspirations are there in the line of 25% to 30% year-on-year with an EBITDA margin of (+22%). That's going to be our guiding principle going forward.

Naysar Parikh: Just maybe the last thing is on your working capital cycle. It's obviously elongated. Is there anything that we can do to bring it down, are we doing anything to bring it down?

Reginaldo Dsouza: So, you rightly said it's a long gestation project. Also, our cycle terms vary anywhere between 10 months to about now as we move up the ladder in terms of product complexities. It would go even up to 14 months. What we are focusing internally is just to give one picture of what we are doing is, focus on consistent quarter-on-quarter performance. I'm sure you would have seen the last three quarters that we had was all (+100) crores which historically you would have seen a spike. That's where the focus is, so that we get our collections on time, we get our monies back on time and improve our working capital. That's the predominant focus that we have considering that we have long cycle projects on hand.

Moderator: Next question is from the line of Saket Kapoor from Kapoor and Co.

Saket Kapoor: When we look at your order book currently at 530 crores, does the impact of the higher raw material prices and the lower margin profile is now totally executed? Now we are back to the old regime of this 20% to 22% margin that we would be expecting going ahead?

Reginaldo Dsouza: Yes, if you recall our words in the last call, we wanted to close all the executions of the past which had this high material cost impact because of which we had projected lower EBITDA last year. But there was some realignment of some of the projects where the deliveries were little postponed from the customer's end or we realigned it. With that some execution is still pending in Q1 and a little early in the Q2. But largely to answer your question yes, the challenge that we had of the past in terms of raw material price currently is out of our way. It's only whatever is on our plates we are executing, all the new orders that, so you will see a very healthy EBITDA level (+22%) in Q3 and Q4. At overall annualized level we will be surely (+22) and plus.

Saket Kapoor: You are referring to Quarter 1 and Quarter 2 will have some impact. You are articulating to have some impact on the Q1 and Q2 numbers on the margin front and Q3-Q4 will have the higher margin profile.

Reginaldo Dsouza: Yes. At EBITDA levels in Q1 and Q2 you'll see around (+20) number because we will complete all the executions which were pending of last year and Q3 and Q4 you would see at a much higher level. On annualized basis you will see (+22%).

Saket Kapoor: When we look at this capital work in progress the figure is now at 87 crores. So, what should we be capitalizing it once Kheda is commissioned? What portion of this 87 crores will get capitalized?

Reginaldo Dsouza: We would be capitalizing the complete 87 crores.

Saket Kapoor: This will be for the first quarter itself. I missed your deadline, when will Kheda get commissioned?

Reginaldo Dsouza: Yes, in Quarter 1.

Saket Kapoor: What would be the depreciation impact for the nine months for the entire year?

Reginaldo Dsouza: Around roughly 4.2 crores.

Saket Kapoor: Coming to the profile for our order booking, you spoke about 30% of the total order book to be executed towards the export segment and the order book itself stands now at the same mix. Earlier also in our last conversation, you did spoke about garnering more orders from other geographies. If you could give us some more color, how the pipeline is there in terms of the export market and what are we eyeing in terms of improving our order booking going ahead in terms of the export?

Reginaldo Dsouza: Oof the 530 crores opening balance that we have, this year that is financial year FY24, we should be about 30% on the export side. So, from 19% in FY23 we move up to about 30% export. I recollect on the last call we did say that we have a plan to go up to 40% in 3 years horizon but we should look at 40% by FY2 on export side. Overall, on the market side export the traction is we are feeling right now is very good. In fact, the last couple of months the order booking that has been there has mostly come from export. I would say about 25% to 80% has come from exports which was a focused one. Of course, we targeted those and we could win them. So, all in all on the market side the scene looks pretty good. On the CAPEX cycle we have been successful in the export orders and we wish to take this export portion from 30% to 40% by FY25.

Saket Kapoor: One small clarification said this 530 crores is executable over the 12 months and the 150 crores order intake takes our closing order book as on 17th May or even date to what figure?

Reginaldo Dsouza: This 530, I would not say 100% executable give and take here and some which are greater than 12 months and 13 months of execution would move some in that, this (+150) crores that we have booked in this year, some of them would be executed. Overall, it would give a bunch of sales order that would give us a 30% growth for this year.

Saket Kapoor: 30% growth on revenue terms?

Reginaldo Dsouza: That's correct.

Saket Kapoor: We are eying to close this year on a top line growth of 30% on what we posted for FY23 with an EBITDA margin in the vicinity of 20% to 22%.

Reginaldo Dsouza: That's correct. So, I reclarify; we stand with our growth aspirations of 25% to 30% year-on-year. 30% looks very strong for this year with a (+22%) EBITDA.

Saket Kapoor: Can you give me the closing order book number as on date?

Reginaldo Dsouza: We opened the year at 530. We booked about close to about 150. So that's about 680 crores.

Saket Kapoor: There will be execution as of now. That would be the normal course of business, right?

Reginaldo Dsouza: That's correct. So, balance I would say on a round of figure (+150) crores would be already for FY25. So, in short, the order bookings that we are doing now going forward is for not this year but financial year '25.

Saket Kapoor: Thanks to the board for increasing the dividend payout. This gives a clear indication on sharing the cash with the investors. Thank you and I will join the queue.

Moderator: Next question is from the line of Abhishek Agarwal from Naredi Investments.

Abhishek Agarwal: My first question, how many orders are you expecting in FY24? Out of that how many orders are for Kheda plant? That's my first question. Second question when will we start doing CAPEX in a Kheda phase 2 ad how much will be the CAPEX? Will we take any loan or raise equity for CAPEX?

Punit Lalbhai: So, let me try and answer that. I think as Regie has just mentioned that we want to target the 25% to 30% growth year-on-year. So, the arithmetic is simple. If you are at 530 and you add on 30%, you have to book that much or more orders in this year. I think the way the year has started; the team is pretty confident in doing that. As far as Kheda is concerned since we are just starting out. The real dispatches will be only in Q3 and Q4 this year to which Regie has already answered that we are probably going to have about 60 crores kind of turnover from Kheda. But the investment that has already been done should take us anywhere between 150 to 200 at a good capacity utilization. I suppose we can anticipate kicking off an investment for the next phase sometime during the next financial year so that we are ready with and that would be 8,200 crores kind of CAPEX that will ready the next 150 crores kind of turnover that we can expect from….as that stabilizes and goes towards utilization. So that's a brief idea of how we are planning to invest.

Abhishek Agarwal: In phase 2 80 crores of CAPEX will be done from internal accrual?

Punit Lalbhai: Yes, more or less. I mean that is the plan. If this 30% growth and profitability expectations are met then we should be on track. But we'll have to of course based on the detailed cash flow working we'll have to probably decide closer to date as to whether everything is matching up. There are no timeline mismatches etc. So very hard to confirm that. As far as possible we will try and keep it that way.

Abhishek Agarwal: How much the CAPEX was also done in FY23 and how much will be CAPEX in FY24?

Punit Lalbhai: Regie we have those numbers on hand?

Reginaldo Dsouza: In FY23 we have done 47 crores, sorry 75 crores.

Abhishek Agarwal: For FY24 what is plan for CAPEX?

Reginaldo Dsouza: 47. If you remember we had articulated that it will be roughly about 120 crores of total CAPEX for Kheda. So that's the breakup. 47 which I stated wrongly earlier it was for FY24 and (+70) was for FY23.

Moderator: Next question is from Soniya Varnekar from Dalal & Broacha.

Soniya Varnekar: I just want to understand, I just want to have some details on other expenses. If we look on quarter-on-quarter basis, the other expenses has increased from 164 crores to 286 crores, sorry on YOY basis. Even in last quarter on YOY basis there was sharp jump. Can you share some details on this and why it has increased so much?

Reginaldo Dsouza: Yes, we got a question. If you look at on the other expenses, if you look at the product portfolio that we have executed most of the projects that were executed were Helix changer and exchanger which is a licensed product from Lummus Heat Transfer. For these kind of licensed products where we have a licensee agreement we need to pay off some royalties. These are royalty payments which normally kicks in once we execute this particular order.

Soniya Varnekar: Is this expected to continue in coming quarters or it's one-off kind of a thing?

Reginaldo Dsouza: No, this will continue based on the product portfolio. If the product mix contains a lot of Helix changer and exchangers then it would have these royalties built in.

Soniya Varnekar: Basis our current order book, do we have such kind of products in the overall orders?

Reginaldo Dsouza: We do have but not at the levels that we had in FY23. FY23 was really more loaded onto the license equipment but in FY24 we do not see that kind of a loading on royalty.

Punit Lalbhai: I think this is already factored into the cost sheet. It's only the allocation of expense that goes under a different head. But it will be part of the 22% margin going forward as well.

Reginaldo Dsouza: These do not impact our margins these are factored in our costing when we work out.

Moderator: Next question is from line of Apurva from PhillipCapital.

Apurva: The first thing, it's more of like a clarification. As we are moving from domestic to export and maybe 30% this year and 40% next year and similarly for the product diversification from heat exchanger heavy Company to maybe wide variety of products including tower etc. So would that have any impact on margins because is that so that the domestic product margin is higher than or lower than the exports and similar for the other product categories?

Reginaldo Dsouza: I would not say really Apurva, what happens is moment we move to exports the chances of winnability increases because the competition level drops down, in a sense the number of competitions, that's one. Of course, on the far side sometimes we tend to benefit. Overall, on the profit sheer numbers perspective at the costing level you may not see that kind of a huge difference.

Apurva: I was coming to the hedging part only so what would be our hedging policy? Would it be open or would it be partial hedging because if you move from 30% to 40% and if I remember clearly, we have a fixed price contract. Despite this fixed price contract if FOREX fluctuation adds up then probably that could open up a more risk area. How would you see that as a risk or as a potential to benefit from the higher export?

Reginaldo Dsouza: I understand your question. What we are doing today is since we are evolving on the export side and moving up in terms of the percentages, currently what we are doing is we are protecting ourselves at being conservative at the costing level right now. But as we move up now, we are going to have a case-to-case basis hedging principles moving forward. We worked that out internally and we would protect ourselves with the timely intervention.

Apurva: Just last one question on the proprietary products. So, what is your thought process? How many proprietary products we may expect over the next 2 to 3 years which can elevate the Company from a current level to the next level because we are very ambitious on that segment as well? Can you throw some thought process for proprietary products?

Reginaldo Dsouza: So, Apurva, it will be hard for me to exactly name which are those products which we will finally be able to succeed. But I can tell you that there are 3 or 4 products which we are in discussions currently to help us move up the value chain in terms of product portfolio. Surely, we should get a handle of couple of them. But we'll wait for it because it does not depend only on us. It also depends on the other side of the licenser to provide us for those proprietary items based on our past record. I can tell you today Anup Engineering enjoys a very good repute in terms of on time delivery performance and quality. So, this should be sooner than later.

Apurva: Out of that any would be exclusive or like Helix there are other licenses and licensees as well. Are we looking for any exclusive tie up with global technology giant?

Reginaldo Dsouza: Our intention would be to have exclusives but finally as I said it will depend on the licenser. We would prefer an exclusive license like what we have for EMBaffle Technology. It is from Brembana & Rolle, Italian Company where we have the licensee agreement which is completely exclusive. That's the kind of contract we would prefer but we will take it as per the licensers recommendation because if the pie is large like what Alexis, we would not mind taking that up.

Moderator: Next question is from Jaydeep from Amber Capital.

Jaydeep Shekavat: I just want to understand when I look at your historical growth trend, it has been roughly a 5% top line CAGR from 19 to 22. Want to understand what has really driven this (+40%) growth during '23 and why do you think that the current order growth momentum that we are seeing is sustainable and why has the oil and gas sector contributed a lot to that? Your thoughts there.

Reginaldo Dsouza: Obviously the most important factor for this growth has been the market, market the CAPEX cycle allows us to get this kind of order intake. The second portion is the capacity that we built up, so with the expansion of Kheda now it throws up a capacity for us to add up to our Odhav current facility. Also, third internally you would have seen the execution capabilities that we have brought about in terms of consistency. Market tailwind, the capacity additions that we've done and execution excellence that we have brought about internally to bring about quarter-on-quarter performance which smoothens up the execution in terms of the final turnover.

Jaydeep Shekavat: Just more nuanced on that. I mean what has really changed over the last year that there has been so much demand in the market for your products, be it exchanger, be it reactors, vessels and everything else that you sell?

Reginaldo Dsouza: If you see the CAPEX cycle, currently it's like projects are announced all across like what the earlier gentleman said. If you heard even the Indian government, why the domestic market is picking up, even if you listen to the Indian government, we just announced a couple of months back that we want to double our refining capacity by 2030. Now that brings about a lot of investment from public sector units like IOCL, BPCL and HPCL in bringing about more refining capacity. That's where you see these projects coming up. On the other side, chemicals how things have changed after the pandemic and all of those has been the growth story. That is the reason why petrochemicals and specialty chemicals are picking up. The demand on the product side is what's fueling this CAPEX. As per me personally if you ask me, even after the pandemic and the geopolitical scene around every country want to be now self-sufficient and avoid importing these items. That's the reason if you see every country would try about putting up more projects to be self-sufficient for these kinds of resources.

Punit Lalbhai: I would also add that the last few years are not representative of normal market conditions. I think the whole COVID pandemic disrupted the order flow significantly for quite a while and in addition to the Kheda CAPEX we've dramatically added capacity both in terms of area under the crane and also what we can do under the crane, in terms of higher metallurgies, higher thicknesses, higher weights even in our old Odhav facility; over the last 2 years we've done a lot of changes to be able to get a much better product mix. So, the revenue per square meter, the capability to do higher on that has gone up as well. There has been a lot of change both on capacity, market and plus the last factor that Regie mentioned is probably the most important, very good execution to where better and better customers are trusting us with their orders and so we are seeing different quality of conversations going forward. I think all of these things give a lot of confidence that this is a new trajectory that we are charting and with the kind of CAPEX cycles already announced, we see a good demand for at least the 2 to 3 years going forward. There's no reason to believe why this should not continue.

Participant: My last question was in terms of the competition on the exports market? Who would you really be looking to replace?

Reginaldo Dsouza: If you look at Indian context, we would be amongst the Top 4 in terms of making these complex equipments, static equipments for oil& gas. It would be the competition among these four and the competitiveness that we hold, augurs well for us to have a higher win rate as compared to our competition.

Punit Lalbhai: I would like to also add that it's not all about taking a share of the pie. I think the overall pie is growing at a healthy rate. I think we are extracting more oil now than even pre-COVID. That's one data point I had, correct me if I'm wrong Regie. The demand overall in the petrochemical and refining space is likely to be strong globally. Plus, our emergence in a relative competitive landscape in India is we are well positioned both on cost and track record especially in the last 3 to 4 years. Plus, I think India in its global position is enjoying an advantage both geopolitically and also from sort of a competitiveness perspective. I think all those things are in favor for us to be well positioned in exports as well.

Moderator: Next question is from the line of Rohit Bahirwani from Vijit Global Securities Private Limited.

Rohit Bahirwani: If you look at annual report for FY22 it shows Company has contingent liability of Rs. 175 crores in the form of bank guarantees. Are they in the form of performance-based guarantees or financial bank guarantees? And can we see these coming down in future?

Reginaldo Dsouza: So, these are the bank guarantees that we need to give in two parts. One is against advances which we call as ABGs and the other is we generally have to give 5% to 10% performance back guarantees which remain for the valid warranty period. So more so it is going to be in line with this and as we grow on our top line, it may go proportionately higher than at the current level.

Rohit Bahirwani: At what number are you seeing this to go further up?

Reginaldo Dsouza: It would be hard for us to predict the exact number. I'll tell you why because this would all depend on the advances that we get against a particular order. Some orders would have an advance of 20% where we will have to give an ABG of only 20%, some may have 50%. It is in proportion to the advances that we take on the order. PBG is more so it will be 5% to 10% around that range, that do not change much.

Rohit Bahirwani: 5% to 10% of top line, you are seeing?

Reginaldo Dsouza: The post PBG is the performance bank guarantees that we talk about is generally 5% to 10% of the pure value.

Punit Lalbhai: Yes, so you are right top line.

Moderator: Next question is from the line of Naysar Parikh from Native Capital Inc.

Naysar Parikh: On the vessels and the reactors' part you have which is expect to be 35%. One is, what are the margins on that versus your heat exchanger? Secondly, you did mention briefly but what kind of other products are you looking at? If you can give some idea that would be helpful.

Reginaldo Dsouza: So, could you please repeat the second question since I couldn't get the second part of it?

Naysar Parikh: My second question was that what other kind of products are you looking at which you briefly alluded to an earlier question besides these two new segments which are expected to grow in the next year?

Reginaldo Dsouza: Yes, I get that. So, on the vessel side the first question that you asked on the margin side, it will not vary of course, it all depends on the way the negotiations are. But by and large I would put the numbers for heat exchangers and vessels to be at the same level and that's where our EBITDA of (+32%) would come in. On the products what we intend and our focus is to move up the value chain in terms of metallurgy. Say for example today if we are having a carbon steel predominant portion of it, we would want to move to exotic material because that gives us a larger turnover for the same space and the contributions that we make. It's more about moving up the value chain in terms of the metallurgy. The second part is in terms of the complexity, that is what we spoke about moving into proprietary items which would obviously come with a little better margin but more importantly with a lesser competition.

Naysar Parikh: What would be some of these products which can give you better metallurgy and higher complexity?

Reginaldo Dsouza: So, for example a vessel we are making today of carbon steel we would get a particular rupees per kg of it. We would want to move it to say for example duplex or stainless-steel material. Obviously for the same amount of value addition that you do, you get larger returns in terms of your top line and in terms of complexity, of course moving more and more to the licensed equipment, more into the ammonia and the urea basket.

Naysar Parikh: And in terms of the competition that you mentioned; can you just broadly name them and also how would they rank in terms of market share maybe in India or exports in your view?

Reginaldo Dsouza: Largely it would be hard for us because these are products which are custom made. There would be vendor list which our EPCs or end customers or the licenser would project from various parts of the globe. These competitions would be around the globe and who all are playing in this field and in the Indian market. So, all of them would be there in the Top 4 and plus there would be the players in the international market which are approved in the vendor list for a customer. It would be hard for us to pinpoint a name on the government project.

Naysar Parikh: The exports are mainly to which countries?

Reginaldo Dsouza: Largely as Anup today we are focused on US market. That's something which is working well for us and also as you know Middle East is a hotbed for oil & gas. These are the two markets which are focused at.

Moderator: Next follow up question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: When you mentioned that the contribution from Kheda would be 60 crores for this financial year, that takes into account our top line guidance also? This 30% growth is including the 60 crores from Kheda or excluding the same?

Reginaldo Dsouza: Yes, this is including Kheda.

Saket Kapoor: So, 15% would be coming from Kheda itself? Out of the total top growth 15% will be from the new facility?

Reginaldo Dsouza: If you do the economics…

Saket Kapoor: I will work it out.

Reginaldo Dsouza: You are right.

Saket Kapoor: When we look at the balance sheet part, we find our borrowing for non-current liability at 30 crores and for current liability at 4 crores. If you could explain to us what resulted in these two borrowings going up?

Nilesh Hirapara: For Kheda expansion we have drawn out around 34 crores as the loan. Out of that 4 crores installment would be due during this year and rest would be in the rest of installment. Those amount which will be due in the next financial year that is FY24 has been shown as the current borrowing liability and the rest against non-current borrowing liability. Just to add one line, at the end of a year as on 31st March we have been almost net debt free that is like negative balance of 1.34 so cash balance plus debt is roughly negative 1.34 crores.

Saket Kapoor: What is the cost of fund?

Nilesh Hirapara: 8.5% and also, we are expecting a certain percent interest redemption subsidy from Gujarat industrial policy. That would be roughly a redemption of around 7% interest from the government which would be equal to the 1% of CAPEX cost. That will bring down our CAPEX loan cost.

Saket Kapoor: If you could explain it once again, the loan incentives?

Nilesh Hirapara: The loan is 6.5% and we'll get interest subsidy from the Gujarat government which would be nearly 7% interest cost. But in total it would be 1% of a CAPEX cost. In total we'll get a reimbursement of around 1.2 to 1.25 crores as interest.

Saket Kapoor: What does the policy entail it gives us an interest subsidy of 7% on the basically entail the visibility of the subsidy part from the government?

Nilesh Hirapara: So, government is financing 7% CAPEX loan. The total subsidy would be the 1% of CAPEX. Suppose we are closing Kheda CAPEX at 120 crores, we'll receive 1.2 crores as a CAPEX subsidy.

Saket Kapoor: 1.2 crores only, 1% of this?

Nilesh Hirapara: Yes, that's correct.

Moderator: Next question is from the line of Tushar Raghatate from Kamayakya Wealth Management Private Limited.

Tushar Raghatate: I understand competition like Godrej & Boyce, L&T and Patel Eng, so I just wanted to understand what different we do in Anup compared to those guys and I understand the pie itself is increasing so what make us help to get such a high export target like from near to 18% 19% we are targeting to 40%. I just want to understand your thought on that?

Reginaldo Dsouza: Tushar if you look at the product portfolio that we deal with, most of these are customized product static equipments that we make and here the past track record in terms of our on time delivery performance and quality plays a very important role. So yes, the pie is definitely better based on the CAPEX cycle today. But for us to be having that growth path and with a decent margin profile, we have to hit the right product and win the right order. That's where the credibility in terms of your past performance and a good repute with customers will play. I think that's where Anup comes at the top in terms of having a good track record and relationship with the customers especially in terms of on time delivery performance.

Punit Lalbhai: I think also there's an element of the past being a capacity constraint environment where we didn't have to look very far beyond domestic orders that were of very high quality. Now with more capacity, with enhanced capability, we can also pick up very discerning orders from very discerning clients abroad. I think the effort to gain more export volumes has been ratcheted up for the last year or so and that is now paying dividends. The growth and the capacity expansion and capability expansion has also led to this directionality of higher exports.

Reginaldo Dsouza: And also, to add to what Punit bai said with Kheda facility now at our disposal, it's bang on the highway. It opens up now a larger product basket for us. Say earlier in Odhav we had a limitation in terms of the height of the equipment that we could move out mainly because it is landlocked because of all the flyovers and being in the city. Now this new facility has opened up that channel for us where we could move equipments even up to a diameter of 7-7.5 meters. This opens up a larger basket for us and that's what customers desire. They don't want us to pick and choose product, they would want that we actually address the whole inquiry basket for them. So earlier there were cases where we had to say no to a customer because we did not have this facility and we couldn't move out from our Odhav facility whereas now it opens up the gate for us to accept whatever inquiries that customer can give in. This all put together puts us in a very strong position in terms of export market.

Tushar Raghatate: From the green hydrogen opportunity do you manufacture any product catering to green hydrogen and what sort of a growth you are seeing on that?

Reginaldo Dsouza: So green hydrogen we all know it's the next energy mix that we all are going to move. Of course, there are some challenges right now but sooner than later it will be addressed but a direct answer to your question Tushar is on the generation side, we don't play a role because green hydrogen is basically electrolysis and other part where we don't have a role. But once the hydrogen is separated out from water that's where our role comes in, in terms of storage and transportation of hydrogen and to clarify we are already into that business today. We are already making these equipments for some of the customers as and when the opportunity arises. So, a short answer yes, we are not on the generation side. We are on the transportation and transmission side and on that side, we are already there into this business.

Moderator: Next question is from the line of Akshay Kothari from Envision Capital Services Private Limited.

Akshay Kothari: Just wanted to know the exotic metallurgy part which we are going to do, what actually drives the demand for this sort of material and in which industry does it get used to?

Reginaldo Dsouza: Generally, these exotic materials you would find more and more usage in specialty chemicals and that's the sector as you know which is booming right now. So that is bringing about the change and if you remember probably if you heard earlier calls, we used to talk about this clean room. Now this clean room is exactly meant for these kinds of equipments. We have prepared ourselves for this kind of order intake and now with this capacity that have we built in which we have commissioned about 4 to 5 months back in Odhav we are now going to customers seeking orders for this clean room.

Akshay Kothari: Currently do we have any orders for this sort of material?

Reginaldo Dsouza: At the moment no, we are not executing but we have a handful of enquiries where we are quoting and trying to bid.

Punit Lalbhai: Regie we do have a lot of exotic material inquiries. Perhaps not clean room great but exotic metals is a big-big basket, right?

Reginaldo Dsouza: Yes, in terms of Inconel and others but I think the main question if I understand correctly, it was on the titanium side probably because of the clean room. That's the reason I was trying to answer that. On the titanium side we don't have an order right now, we are not executing. We are having inquiries which we are targeting to receive but from the other higher metallurgy basket like Duplex, Inconel we are already making and we have a handful of them right now under execution.

Akshay Kothari: You did mention that we are trying to double the refining capacity by 2030. What sort of opportunity does lie ahead of us in terms of heat exchangers, vessels and the products we deal in. If you can just give some metric there is a CAPEX of around 1,000 crores happening. Out of that how much pie would come to us in the market as in, what sort of opportunity is there?

Reginaldo Dsouza: What I said was India which has articulated this vision a number of times that we want to double our refining capacity. It will see a lot of refineries coming up. You would have heard in the news even the Ratnagiri one of the largest refining project that is being talked about. That's also now on the discussion, these kind of refining projects would come. In terms of what is the kind of opportunity that we have. Say for example, the example that you gave 1,000 crores comes in, static generally in the product portfolio that we as Anup Engineering would be interested in because there are some products where we are not qualified, some products which we are not interested in because they are too small. The pie that we would be interested in is roughly about 2.5% to 3%.

Akshay Kothari: Out of that if I did get it right, 15% to 20% is the conversion of the bid pipeline, right?

Reginaldo Dsouza: That is correct. If you see any project, refining or a petrol chemical project being announced you would see a number of say in between $1 and $2 billion kind of a project. Roughly about 7,000 to 13,000 crores worth of project. That's the size of the project out of which the product portfolio that we would be interested in would be roughly about 2.5%

Moderator: Thank you very much. I now hand the conference over to Mr. Reginaldo Dsouza for closing comments.

Reginaldo Dsouza: Thank you so much everyone for a very interesting and an interactive session. We were quite happy responding to all the queries and clarifications that you wanted. I am sure going forward as well, we will have your understanding, support and guidance as we take this journey towards a glory future creating a win-win for all our stakeholders. So once again a big thank you and take care.

Moderator: Thank you very much. On behalf of the Anup Engineering Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.
