"The Anup Engineering Limited Q2 FY24 Earnings Conference Call"

October 30, 2023

MANAGEMENT: MR. REGINALDO DSOUZA – CEO, THE ANUP ENGINEERING LIMITED
MR. NILESH HIRAPARA – CFO, THE ANUP ENGINEERING LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 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 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 the website of the Company.

I now hand the conference over to Mr. Nilesh Hirapara. Thank you and over to you, sir.

Nilesh Hirapara: Good evening to everyone. This is Nilesh – CFO at Anup and we have our CEO – Reginaldo Dsouza on the call with us.

We have clocked a revenue of Rs. 139.8 crores and EBITDA of Rs. 31.4 crores in this quarter, which is 22.4% of revenue. It is clocking revenue of Rs. 265 crores and EBITDA of Rs. 59.4 crores in H1. PAT remains at Rs. 21.7 crores that is 15.5% of revenue in Q2, whereas in H1 PAT is at Rs. 40.30 crores, which translate to 15.2% of revenue.

It gives us immense pleasure to inform you that on H1 current year versus H1 last year, revenue from the operation has grown by 73% and EBITDA has almost doubled and PAT has increased by 122%. Our ROCE for the quarter is at 23.6% whereas Return on Equity is at 18.9%. On the balance sheet front, net cash is Rs. 59.50 crores, which is net of debt of Rs. 45 crores.

The working capital terms achieved during Q2 is 3.5 terms mainly on account of reduction in the receivable and higher receipt of advance from the customers.

With this update, I would like to hand over call to our CEO – Mr. Reginaldo Dsouza, to give you update on the operations and market before we open up our session for the question and answer.

Reginaldo Dsouza: A very good evening and a good day to all and warm greetings from team Anup. We are glad to be part of this call to present our Quarter 2 results and overall performance. I must say the team at Anup has executed the plan very well so far into this year to ensure we post a good performance in Q2 and H1. So, my sincere thanks to all our dedicated and committed team members, our partners, our suppliers and all our shareholders for standing by us and trusting the brand Anup.

So, let me take you all through the performance into Q2 and H1. So, on the revenue front of our H1, as mentioned by Nilesh, we have posted a 73% growth to clock a revenue of Rs. 265 crores with a decent EBITDA of 22.4% at Rs. 59.4 crores which is almost double of last year during the same period. Also, as mentioned by Nilesh, all the other parameters on working capital, cash flow and financial ratios have been very encouraging in Quarter 2 and H1.

On the industry that we served in Q2, Oil and Gas and Petrochemicals still holds the dominant position at 82% of our revenue. Fertilizers came in second at 17%, which also includes our business for hydrogen projects.

On the product portfolio side, Heat Exchangers still maintain the dominant position at 76% and Reactors, Vessels and Columns at about 21%. Now, as I mentioned earlier, also in the last call this we will see a change as we move ahead in time as our Kheda plant starts dispatching equipment because strategically, Kheda will be manufacturing all Vessels, Reactors and Columns, so obviously we see this percentage mix changing and Vessels and Reactors taking a little higher percentage as we grow and move in time.

Exports which is another strategic focus for us, at the level of H1 it stood at 15% of our total revenue and as guided earlier, we should touch an export revenue of approximately 30% in this financial year. This is based on the order booking in hand and our dispatch plan into quarter 3 and quarter 4. So, we should be comfortably at about 30% exports of the revenue for the year.

On the order booking side, I must say we had a very good run. At the end of Q2 we had a total of approximately Rs. 355 crores worth new orders booked in this financial year which translates into pending order book of Rs. 630 crores as on H1. Carrying on with this momentum, this month I must say, has been an outstanding month for us, that is the month of October we booked about Rs. 243 crores worth new orders this month, Rs. 243 crores. This is historic and the highest ever that we have booked in a month. So, as we speak now, we have clocked approximately Rs. 598 crores worth new order booking in this financial year so far and interestingly, 55% of them for exports. So, this is another important factor of this new order booking. And also I must say a good portion of it is booked for hydrogen projects, so this signifies our presence on the journey towards energy transition and our hydrogen economy across global projects. So, this new order intake means a pending order book of Rs. 873 crores as on date. This is the best we ever had, so Rs. 873 crores as on date as we speak.

So, considering our plan for this financial year and if you put the numbers together as on today, we would have approximately about Rs. 590 crores of orders to be executed in the next financial year, FY25 and we are still counting as we have some good prospects in the coming months. This means well for us and perfectly in line with our growth plan of 25% to 30% in the coming year.

On our new manufacturing facility at Kheda, I am happy to state that we have dispatched our first equipment from the plant in Q2 as plan and on time. So, it was a large piece of equipment weighing about 200 metric tons for an export order for a customer in Jordan. So, Kheda now with this moves the full stream executing orders for the coming quarters. I am also happy to state that good part is that we have over Rs. 100 crores order already booked for the Kheda plant. So, that means well for this new facility which we commissioned and inaugurated in the month of June.

I am also happy to announce that we have expedited the decision on adding capacity at Kheda. We have decided to extend the one partial bay which was built in phase one, so we are going to complete that bay. So, if you remember, we had built one and half bay, manufacturing bay of the total 7 bays that we had planned at the macro level. So, that one and half bay we are going to now complete that half portion and complete 2 full manufacturing bays. The plan is to make this operational in early Q1 of FY25, so by March, April is where we are going to complete the construction phase and start and commission this extension of the existing half bay. This means we will have 2 full manufacturing bays as against one and half for the next year. So, for this we need an investment of approximately Rs. 15 crores and we have a plan to complete it within next 5 months to maximum of 6 months.

We are also making some good moves on sustainability initiatives. We have started on the project of Rooftop Solar at our Odhav plant. With the commissioning of this plant, about 50% of our power utilized will be from renewable source. This would be a good move and we will continue on this journey of getting our power utilized from renewable sources. Also at Kheda, since we have a vast land at Kheda, we have started forestation project at Kheda in the open land available to create a greenbelt in our quest to offset our carbon footprint and contribute towards our sustainability initiatives.

So, all in all, to conclude, we had a very fruitful first half of the year and the momentum created with a good order book position means well for achieving the growth plan of 25% to 30% for this year that is FY24 and also sets a stage for a similar growth in the next financial year that is FY25. Having said this, we are also aware and cautious of the current geopolitical uncertainties, elevated oil prices and also a volatile economic outlooks in various parts of the world, but I am confident that with a good business visibility into the next year, on account of a strong order book and order pipeline already on hand and at the strength of a strong execution team at Anup and with the support of our reliable partners and suppliers, we will be able to deliver on plan.

So, with this, I end my remarks and comments on the performance of Q1 and H1, and we would be happy to open up the session for Q&A.

Moderator: Thank you so much, sir. We will now begin the question and answer session. The first question we have is from the line of Abhishek Agarwal from Naredi Investments. Please go ahead.

Abhishek Agarwal: Congrats on the good set of numbers. Sir, I have two questions, first question, what is the reason for lower the cost of employee and other expense in Q2 compared to Q1 FY24?

Nilesh Hirapara: As we speak in the Q1 call, there were certain variable incentive portion of last year which were taken as a provision in the last quarter and from this year we have made a policy wherein the variable pay likely to be paid at the end of the year which will be provided in each of this 4 quarters, so that one time hit which we took last year that is the reason why employee cost was higher. And the main reason for the reduction in other expenses is the royalty. In the last quarter, there were certain dispatch which were subject to royalty, whereas in this quarter the dispatches which are subject to royalty is very minimum that is the reason why there is a reduction in the other expense in this quarter. Nonetheless, we would like to tell you that the royalty which we are supposed to pay on the product is already built in the cost, so it doesn't impact our profit beyond the point.

Abhishek Agarwal: So, for yearly basis what should be the total other expense in FY24?

Reginaldo Dsouza: This would be in the line of Q2 only.

Abhishek Agarwal: And second question, this enhanced net profit margin you attained in Q2 and H1 FY24 is sustainable and this kind of 15% net profit margin will be maintained for next 2 years to 3 years?

Nilesh Hirapara: Yes.

Moderator: Thank you so much. The next question is from the line of Abhineet Anand from 3P Investment. Please go ahead.

Abhineet Anand: Just wanted to understand our role in the hydrogen part that you were talking about that some of the orders that you got in the international markets, so what exactly are our roles in this hydrogen part?

Reginaldo Dsouza: So, hydrogen as we know broadly has 3 aspects, 1 is the generation side, 1 is storage and transmission. When we speak about say for example Green hydrogen on the generation side, we do not have any role per se right now because that is more on the electrolyzers and generators using Green Electrolysis process where we play a role is in storage and transmission of this hydrogen. So, today, we are manufacturers of Static Process equipment and those are the equipment that are used for storage and transmission of hydrogen. So, broadly, even today with our capabilities and capacities in place, we are able to serve our customers for hydrogen business and we will continue to do so in the future. So, broadly a direct answer to your question is, it is more about storage and transmission using Static Process equipment that we build. So, it is not a different product portfolio for us. It falls in the existing product portfolio bucket.

Abhineet Anand: And is it possible to state like for example over the next few years, how important can this segment be? Like today we are at X%, which might be small because it is initial time like so and over the next 3 years to 5 years, can this become a significant opportunity for us?

Reginaldo Dsouza: Yes, surely it is already becoming a significant opportunity, so as I mentioned, the current order booking that we had substantial portion of it has come from Hydrogen projects for exports, largely in places like Louisiana, USA and Canada. So, we see a lot of Hydrogen project offers. We don't see as many Green Hydrogen projects, but Blue Hydrogen which is probably the intermediary is same till such time that Green Hydrogen really picks up because I think on the Green Hydrogen side, the cost would be a major factor. Today, we see anywhere based on the information available, the price is anywhere between $6 to $**7** per unit. And what it will make affordable and a mass demand would be somewhere around $1.5 to $2. So, that would take some years, but I am sure intermediate till we reach that stage, Blue Hydrogen will be the path forward and a substantial portion of it is coming from Hydrogen projects for us today.

Abhineet Anand: And any green shoots you have seen on this side in India, sir?

Reginaldo Dsouza: You mean to say on the Hydrogen project?

Abhineet Anand: Yes.

Reginaldo Dsouza: So, there are a couple of projects which are being initiated, of course, it is not at the same scale as we see abroad, but there are pilot projects which have been announced and we see this taking and picking up in the near future. From the Anup perspective, we are ready as the same product portfolio, so it is just about getting the enquiries, quoting and winning the projects and executing.

Moderator: Thank you. The next question is from the line of Bharat Gupta from Fair Value Capital. Please go ahead.

Bharat Gupta: Congratulations for a good set of numbers. Sir a couple of questions from my side, so when I look at the overall space in terms of the CAPEX intensity which lies in the domestic space, so definitely there has been some sort of a slowdown, if I look at the chemical space alone, so how do you rate? Because I believe Rs. 4,000 odd crores of that comes on an annualized basis, so are we seeing that kind of a slowdown getting impacted to us in the domestic way?

Reginaldo Dsouza: So, on the domestic side, yes, on the Refining and Petrochemical side where we are not seeing the same drive as we saw last year because there are some projects which have been announced and yet to take a shape, but they are in the preliminary stage of getting along with the project. What we see is a lot of projects which are coming up on the Petrochemical side and also especially in PVC, Polysilicon and PTA plants. So, there are a lot of projects on the cards now and if you just remember me talking about why do we want to have the geographical spread focused on exports as well, this was the precise reason because we have seen this nature of CAPEX is cyclical. Of course, we are in the best CAPEX cycle right now and a stretched one too, partly it is going to be cyclical in nature and that is the reason this geographical spread is extremely important, so that it does not impact our business going forward and that is where we have a good mix now of domestic and exports and that would protect the growth going forward.

Bharat Gupta: Sir, just on the export bit, because I believe our strike rate in the domestic space is near about 30% odd, so how are we placed in terms of the export orders which we get? What would be a strike rate in that?

Reginaldo Dsouza: Strike rate in a sense you mean order conversion rate**?**

Bharat Gupta: Yes, conversion rate.

Reginaldo Dsouza: So, we are in the region of 15% to 20% average strike rate, and we wish to keep it at that, as I mentioned earlier too, it is all a factor of the profitability that you earn, you can improve your strike rate by taking orders at a lower margin, which is not the strategic intent that we have. So, based on the experience and based on the inquiry bank on the table today and what we see in years down the line. We feel 15% to 20% conversion rate is a good strike rate for us to maintain both growth as well as profitability.

Bharat Gupta: So, sir in a way, if I look overall in terms of the margins, EBITDA per tons, so that will be comparable to the one which we enjoy in the domestic market?

Reginaldo Dsouza: Exports will be comparable in a sense, when we book the orders, we do not see much of a difference in the margin profile. But yes, exports do benefit us from the perspective of better working capital because the advances are much better as compared to domestic orders and also more than often, we are conservative on the FOREX side, so when we actually dispatch and get our money, we tend to benefit out there. So, like-to-like at the order booking stage, there would not be a substantial difference, but once you kick into execution, export orders do help us as compared.

Bharat Gupta: Last time when we were discussing, so probably we were thinking of adding new like titanium kind of a coating, so that gives you an edge in terms of your predicting the margin side because we are fairly above 20% odd. So, in a way going forward, do we think that because hydrogen would be one which will be contributing a major part of revenues going forward? So, there the margins will be remaining on a similar sort of a trend, and it will be more of a premiumized kind of a segment for us?

Reginaldo Dsouza: So, as I mentioned, our strategic intent is as we grow to maintain a 20% plus kind of an EBITDA range, that is what our intent is, so it is all about making choices and currently also the orders that we are booking in the hydrogen space and elsewhere, we are choosing products or in other words we are going aggressive on products and orders where we get a better product mix in terms of higher metallurgy. So, with the same kind of churn and execution, we tend to get a higher realization in terms of revenue and EBITDA. When I say EBITDA, it is an absolute

EBITDA from executing projects with higher metallurgy. So, we see that trend going and that is clearly a differentiating factor for us going forward because labor arbitrage will not work for too long, so we have to differentiate ourselves and create our own USP's by having more fast track records on executing critical projects. So, we will be strategically going more deeper and more wider into the product segments.

Bharat Gupta: Just a last bit, what will be a timeline for the execution of the current orders which we have received over the last 6 months? And we aspire to become Rs. 1,000 crores topline Company, so is that 25% kind of a CAGR growth is sustainable over the next 3 years to 4 years?

Reginaldo Dsouza: So, the answer to your first question, as we speak all the orders that we have booked is within the realm of FY25, so we have got deliveries until 17 months to 18 months, so all it falls exactly into the end of FY25. So, whatever order book that I have mentioned will all be executable by the end of FY25. Sorry, what was the follow on question on that?

Bharat Gupta: Sir just wanted to check like in terms of our aspiration to be a Rs. 1,000 crores odd Company in terms of the topline, so do we see the momentum to remain on a positive side? We want to grow at 25% CAGR over the next 3 years to 5 years?

Reginaldo Dsouza: So, our growth guidance remains the same that we want to grow at a 25% to 30% growth rate and as I mentioned on the order booking this year has been quite encouraging and we see this momentum going forward with right choices made from our side.

Bharat Gupta: Sir just one question, particularly just a follow up on the export bit, given out the competitive intensity, like what remains our key mode out there in the export side, is it just primarily on the cost side or is there something where we have the expertise in the product design? So, what according to you has been the key moot and the key reason why we have been able to receive a good order from the export side?

Reginaldo Dsouza: So, the primary requirement in export of course, we being supplying equipment which are customized and high on technical nature, getting qualified technically of course is the primary requirement, but assuming that the competitors are all qualified and capable of getting the bids and quoting for it. Next, of course, price is a determining factor today because budget is a big constraint, but having said that, I think what we are seeing in export is also a more on reliability and a good experience in terms of the way the companies do business. So, we have seen many repeat customers coming to us just because they had very good experience working with us, especially on the way we execute project on time. And then of course without saying quality is hygiene for them. So, largely on price, yes, that is a critical factor, but added to that, I think good past experience and reliability in terms of supplying equipment on time is a critical factor because as we said, our products would be a few crores but the customers projects would be billion dollars, so a lot depends on our timely delivery of equipment and I think that is the USP's that Anup has today.

Moderator: Thank you so much. The next question is from the line of Nitin Gandhi from Inoquest Advisors Private Limited. Please go ahead.

Nitin Gandhi: I just wish to understand the dynamics of adding bay I rather appreciate that decision to have half bay quickly, but how is it linked? What kind of volume or what kind of revenue of order book flow will force for addition of next bay? And how does it change cost wise? And I have one follow up question thereafter.

Reginaldo Dsouza: So, if you have heard us even in the last call, I think we had a lot of interactions on when Phase-2 at Kheda after we came with phase 1. So, Phase-2 is 2 bays which we are going to add. So, intermediate to that, since the order booking has been really good, the market dynamics are favoring us. What we felt is that the extension of that half bay gives us that added capacity to delay that phase to a little bit, depending on how the market moves, so considering the order input, good visibility in terms of as I mentioned, Rs. 100 crores plus for Kheda already and counting. We see a lot of inquiries for Vessels and Reactors on the table. So, we foresee that at Kheda we may quickly be out of scheme in terms of capacity, and we don't want to reach a position where we have the business opportunity and I am not able to execute and that is the reason we took a call and it is not much of an investment for us. It is just about Rs. 15 crores kind of an investment because we had already done half of the construction work in the 1st phase, like all the piles of our foundations have already erected, the floor was already ready, so it is just a question of covering the shade and having the final RCC flooring. So, that is the reason we took the call. Number 1, it will be quick 5 months to 6 months project, so we will be having the shade up and running by March to April and also the investment was not too heavy for us. So, that gives us flexibility in terms of added capacity.

Nitin Gandhi: No, sir I was just looking forward to say the subsequent phase, can I say that every Rs. 300 crores order book addition will seek additional bay and maybe the investment will be somewhere around Rs. 35 cores to Rs. 40 crores? So, because we have the capacity for 7 bay, so I am just trying to understand that logic?

Reginaldo Dsouza: Yes, so we have the overall master plan of 7 bays. So, as I said earlier, each bay it would cost us anywhere between around Rs. 40 crores to Rs. 50 crores kind of an investment and each bay can give us revenue depending on the product mixes, around Rs. 150 crores. So, as we move ahead in time and we need about 12 months for every bay to be constructed. So, as we move the right timing for us is with this extension would be in FY25. So, as we approach and get into FY25 based on the order booking and the future forecast we will take a call on Phase-2.

Nitin Gandhi: The another question is what is our role you say in Static Process equipment for hydrogen plant, but what kind of revenue for some X capacity of hydrogen is possible for us based on the competition profile because that segment data is there that the Blue hydrogen is getting added so much, but what will be our revenue from each of hydrogen say 110 ton plan or something like that? Some indicator if you can share that, how do we correlate our revenue with whatever Blue hydrogen expansions are happening?

Reginaldo Dsouza: Of course, every hydrogen plant depending on the license is involved will have different kind of configurations, so we will not be able to pack the same numbers for all kind of configurations. But roughly, of course these data points are available, but based on our own experience for a project of a particular size roughly about 2.5% to 3% is the Static Equipment requirement where we at Anup will be able to bid for. Now when I say this 2.5%-3%, it is a product portfolio that Anup is interested in. Of course, there will be lot of other projects on the lower segment or lower thicknesses where we may not be interested and also on the much higher segment where we are yet not qualified and we wish to get qualified in the future. So, on average, this is around 2.5% to 3% is the kind of Static Process equipment requirement based on the size of the project. Now for example our project could be say for example $2 billion, kind of an investment, depending on the size that they build, we could have an opportunity of about 2.5% in static equipment. Of course, that is, those are the inquiries that we can bid for than depending on the win rate and how competitive we are, the order booking will be commensurate to that.

Nitin Gandhi: And the last question, so you said that at this juncture we have some capability, and we have the aspire to go to higher level, so in terms of supplying this SE, so what could that be? Will that change the percentage 2.5%-3% for Anup to say 5%, 7%.

Reginaldo Dsouza: So, that strategic movement is basically to stay relevant and to be up on the competition brackets. So, as I said, there would be a lot of smaller players emerging in this market and rightfully so because there the CAPEX actually is so good. So, for us to stay relevant, we will have to keep moving up in terms of the complexity of the equipment both in terms of metallurgies and in terms of the equipment complexity. So, that is more to be to staying relevant and getting the order book position growing as we grow into the future.

Nitin Gandhi: Thank you very much and wish you all the best for hitting Rs. 1,000 crores soon.

Moderator: Thank you so much. The next question is from the line of Abhishek Poddar from HDFC Mutual fund. Please go ahead.

Abhishek Poddar: Sir congratulations on a very good set of results. Sir first question is regarding the inquiry pipeline, if you could give us some understanding what inquiry pipeline you are looking for the rest of the year? You did mention about 15% to 20% strike rate? And sir second is because of the addition of Blue Hydrogen Static Equipment, how much gets added to the inquiry pipeline on an annualized basis? If you can give some understanding there also?

Reginaldo Dsouza: So, overall as we speak, it is a real time we are at about Rs. 1,000 crores kind of an inquiry bank on the table, of which Rs. 600 crores to Rs. 700 crores comes from our conventional Oil and Gas and Petrochemicals and about Rs. 200 crores to Rs. 300 crores comes from hydrogen, hydrogen means green, blue all put together.

Abhishek Poddar: So, this thousand is for the rest of the year, sir?

Reginaldo Dsouza: It is rolling, so month-on-month new inquiries keep getting adding, the old ones keep getting finalized. So, at any given point in time as we speak today, we have a Rs. 1,000 crores inquiries bank and touchwood it has been good over the last few years that we have carried an inquiry on an average of Rs. 1,000 crores to Rs. 1,100 crores.

Abhishek Poddar: So, given this is rolling, sir, if we have to understand it from the annualized basis that let us say for this full year 12 months what kind of inquiry you would be responding to? Can you give some understanding, sir to help us little to understand what success rates and all?

Reginaldo Dsouza: So, on an average, if you look at historical data points, we have been quoting to anywhere between on an average Rs. 4,000 crores kind of inquiry is where we have been quoting for. So, as we grow gradually, we will tap into more and more geographies. That is our intent because we are spreading out, so most likely we would be touching a Rs. 5,000 crores kind of inquiry bank.

Abhishek Poddar: Sir out of this Rs. 5,000 crores you mentioned 20%-30% is hydrogen, so about 1,500 will be hydrogen and rest 70% would be Oil and Gas?

Reginaldo Dsouza: So, that is what it looks like today because we are seeing a lot of projects being announced on hydrogen, especially in exports, hopefully the trend continuing, we should see this kind of break up.

Abhishek Poddar: What should be the breakout of this Rs. 5,000 crores in domestic and international?

Reginaldo Dsouza: Largely about 3,000-3,500 is domestic and balance is exports. Having said this, this would change year-on-year because the investment obviously are cyclical in nature, but if you take averaged out, it would be around in that range.

Abhishek Poddar: One more question on the 2 bays at Kheda, so if those half bay is also commissioned what will be the total revenue that we can generate from Odhav and 2 bays at Kheda?

Reginaldo Dsouza: So, with Odhav and 2 bays at Kheda, we should be comfortably at about Rs. 750 crores.

Abhishek Poddar: The remaining 5 bays, how should we think about the decision to add those bays?

Reginaldo Dsouza: So, the timing of the investment how we have planned, as I said, it takes about 11 months to 12 months to set the bays and good part is that have we already set the utilities in place for the whole master plan. So, what we need to add is only the manufacturing bays, so we will time it with an understanding of about 12 months to set each bays and as we move accordingly, we will time the investments.

Abhishek Poddar: And sir how will be the total CAPEX this year including this Rs. 15 crores?

Reginaldo Dsouza: It should be about Rs. 60 crores including this Rs. 15 crores.

Abhishek Poddar: And should this fall in 25, assuming this Rs. 15 crores is already spent?

Reginaldo Dsouza: You mean to say this CAPEX will fall in FY25?

Abhishek Poddar: 25 yes, sir.

Reginaldo Dsouza: So, part of it would be commissioned in this year FY24 and part will go into FY25, Rs. 15 crores for sure will be commissioned in FY25, so we could roughly say about Rs. 20 crores to Rs. 23 crores in FY25 and balance in this year.

Abhishek Poddar: So, overall CAPEX number will be 60 in 24 and even in 25 it could be a similar number only?

Reginaldo Dsouza: That is correct largely, of course, there could be some sort of operational difference in terms of some small machinery addition, but largely yes, around this number.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: So, first question is on gross margin there is a declining sequentially and Y-o-Y, how should I understand this?

Reginaldo Dsouza: So, if you look at the numbers this year, the COGS in quarter 2 and H1 stands at 58. Now what is happening is as I explained in my last call as well as we move up into more and more complex equipment and complex metallurgy, the component of material content would progressively go up. Just an example like carbon steel would have about 50% kind of raw material content, whereas if you go for titanium and others it could go even up to 70% and 80% kind of material content. So, as we move into more and more complex, the COGS would go up broadly because the absolute EBITDA will go up by we moving up the ladder in terms of complexity chain, but percentage wise EBITDA is going to drop and that is the reason we were saying in the last call that we will never see those historic like 29% and 25% kind of an EBITDA because as we grow our material content as a percentage of revenue would keep going up with the complexity of material.

Alisha Mahawla: So, the 22% kind of model that we have been doing since the last 2 quarters, 3 quarters, are these more sustainable numbers?

Reginaldo Dsouza: So, strategically that is the choice, so even on the order booking front when we make choices we are very sure that we are going to be around that number.

Alisha Mahawla: And with the mix of the order book skewing towards exports and like you mentioned earlier also the Kheda skewing towards Reactors and Pressure Vessels, with the new mix also, is the 22 sustainable or is the Heat Exchangers and especially on the domestic sites like unprofitable and there can be chipping off the margins from here also?

Reginaldo Dsouza: Going forward is sustainable and that is a strategic intent we have more in going forward. So, as I said, it is all about making choices, so that conversion or strike rate that we were talking about 15%-20%, now it can be taken to 25% and 30% and the number of order booking could go up, but then it would mean we would compromise on the margin, so that is the strategic intent that we have to grow at 25%-30% rate year-on-year and also maintain 20 plus percent kind of an EBITDA.

Alisha Mahawla: So, just a clarification on this point, generally when we hear other peers in this space, the more complex or more customized the product as it helps us command a slightly more premium and hence slightly better margins. For us it is the other way around. While I do understand that if raw material component will be higher or like you said, bigger size is more, compact size is lesser people who can manage to do it as efficiently as they can. Shouldn't that technically help us also enjoy better margins?

Reginaldo Dsouza: So, what happens is when we move to a particular product bracket, there would be a competition, say for example 4 players or 5 players who will play in those complex equipments. Now the profit margin that we can enjoy the contribution is on the value addition that we do. Say for example titanium heat exchanger which is high on raw material content, the value addition that you do in terms of conversion almost remains the same. So, your absolute revenue goes up, your absolute EBITDA goes up, but when you look at the percentage EBITDA, it will be on the lower side because of the lower contribution margin that you get. Moving up the metallurgy chain helps you to play with very few players say for example if you play in a normal carbon steel, you have 10 to 12 competitors. The moment you move into the niche segment, you would have 3 or 4 competitors to play with, so it helps you to better your win rate and also grow your revenue and EBITDA in absolute terms.

Alisha Mahawla: And sir as on October, the order book is at Rs. 872 crores, can you give us the split between Heat Exchangers and the Reactor, Pressure Vessels for this?

Reginaldo Dsouza: So, Reactors and Pressure Vessels still stands at about 22% and the balance is Exchangers, so Heat Exchanger still holds the dominant portion, but as we move now because the order booking for Kheda is going to progress as we move ahead in time, we will see that portion going. So, as I mentioned earlier, the peak that we see still is around 55% to 60% Heat Exchanges and 30% to 35% Vessels and Reactors. So, Heat Exchangers will still be a dominant portion in our product portfolio.

Moderator: Thank you so much. As there are no further questions, I would like to hand this conference over to Mr. Reginaldo Dsouza for the closing comments. Over to you, Sir.

Reginaldo Dsouza: Thank you for questions, very interesting and insightful for us and thank you for your time. So, I once again take this opportunity to thank each and every one who has contributed to this performance and especially to all our stakeholders for your trust and standing by our side as always. So, thank you and on behalf of my team at Anup, I wish all of you a very happy festive season and a very happy Diwali in advance. Thank you so much and have a good day ahead. Thank you.

Moderator: Thank you so much, sir. On behalf of The Anup Engineering Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you everybody.
