"The Anup Engineering Limited Q3 FY-24 Earnings Conference Call"

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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 Q3 and Nine-Month ended 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 have uploaded the Results, Press Release, Investor Presentation and also 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 – Chief Financial Officer of the company. Thank you and over to you, sir.

Nilesh Hirapara: Thank you so much. Good afternoon and a very warm welcome to everyone. Thank you for joining us today for our Quarterly Financial Update.

This is Nilesh and I have our CEO – Mr. Reginaldo Dsouza here with me.

I will start with a quick "Rundown on the Number" of this Quarter and then Regin will give an "Update on the Business and Market Outlook":

In Q3 FY24 we have achieved a revenue of 128.4 crores, which is 12% higher than the revenue of Q3 FY24, EBITDA achieved is of 30 crores at 23.4% of revenue, whereas PAT is 20.20 crores at 15.70% of revenue. EBITDA has increased by 33% compared to Q3 last year, whereas PAT has increased by 45%. For the nine-month FY24 revenue achieved is 393.5 crores versus 267 crores of same period last year. That is 47% higher compared to the same period last year. EBITDA is at 89.4 crores which is 74% compared to 52.5 crores EBITDA of same period last year. In percentage terms, EBITDA is at 22.70%, which is 3% higher than the EBITDA percentage of same period last year.

For the nine-month FY24 PAT is at 60.40 crores at 15.4% which was at 32 crores at 12% nine-month last year, showing growth by 80% year-on-year, and improvement of 3.4% in absolute terms. In Q3, we have achieved a working capital turn of 4.3 times mainly on account of good debtor collection as well as higher receipt of advances. In the long run, we expect working capital turns to be in the range of 3x to 3.5 times.

Our other income is at 2.6 crores in Q3, which is mainly on account of higher treasury income. Same is at 4.7 crores in nine months. On the cash front, we are closing at gross cash of 146.4 crores and debt of 41 crores. Just to add, we have paid debt of INR 20 crores in the month of January 24.

With this, I would request our CEO – Mr. Reginaldo Dsouza to share update on our business and market outlook. Before we move on for question-and-answer session.

Reginaldo Dsouza: Thank you Nilesh. A very good evening, and a good day to all. Warm Greetings from team Anup. I am glad to be part of this call to share our performance on Quarter 3 and also provide a brief on the future outlook. As seen from the numbers presented by Nilesh. We have an unplanned Quarter 3, with good consolidation on margins and better working capital management, helping our cash flows. I must say that the team at Anup has been doing a phenomenal job to maintain the momentum and consistent performance over the last three quarters into this financial year.

On the revenue for the nine months ending December, we have posted a 47% growth at INR 393 crores with an EBITDA of 89.4 crores, which is 70% growth for the same period. Here, I would like to mention a fact that in Quarter 3, we executed some free issuer material orders. Now, if you put that into numbers, it was equivalent to about 12 crores to our revenue. So, the 131-odd crores that you look at as revenue, apple-to-apple we should add 12 crores. So, it would effectively look like a quarter of probably (+140) crores, that's mainly because we executed some free issue material orders in Quarter 3. We had a healthy PAT growth of 89% at INR 60.4 crores. Also good debtor management and better advances ensure that we maintain a very healthy working capital at 4.3 turns. On the industry wise, revenue for Quarter 3 oil and gas and pet chem is at 52%, fertilizers at 14% and interestingly hydrogen is at 33%.

On the product portfolio side, we have heat exchangers at 51%, reactors and vessels at 30% and piping and spools and others at 15%. So, when you see this numbers, unlike the past, we see a more balanced product mix in Quarter 3. Exports stood at 33%, which is very much in line with our guidance of 30% for the year. On the order booking side, I must say Q3 was one of the best quarters with about 307 crores worth new orders booked, which makes the new order booking of 662 crores for the year. Of which 57% is exports so that should be very encouraging for us as it's in line with our guidance. This means a pending order book of 814 crores as we speak at the end of Quarter 3. So, considering our plan for this financial year, and if we put the numbers together, we have an order book of 675 crores to be executed in the next financial year FY25. Now, this augurs very well for us and perfectly in-line with our growth guidance of 25% to 30% for next year.

Also, with an average inquiry pipeline of approximately 900 crores on hand. We expect considerable order intake in the coming months. We are actually now calibrating our new order intake for the year that is FY26. On our new manufacturing facility at Kheda. I am happy to state that we have dispatched yet another equipment of a pretty large size equipment weighing approximately 200 metric tonne on time from this new facility. Also, an encouraging fact that we have about 150 crores worth of orders already booked for Kheda plant to be executed in the coming period till next year. So, in short, all-in-all our Kheda plant has taken off very well in line with our expectations.

As conveyed during my last call, we have already started the work on manufacturing bay extension at Kheda to complete the partial bay built in phase one, we expect to have this operational in Q1 of FY25. So, this means that we will have two full manufacturing base which would be approximately 10,000 square meters floor area at Kheda. This will be available almost for nine months into the next year financial year.

On the sustainability initiatives we have completed the one-megawatt rooftop solar installation at our Ahmedabad plant. It is expected to be commissioned in this quarter. Now with this operational and also the windmills that we operate, we should approximately have 50% requirement in Ahmedabad covered through renewable sources.

Taking this forward, we also intend to have a rooftop solar at Kheda plant in due course of time. And also, as I mentioned on my last call we have also started the forestation project at Kheda open land, because we have asked land to create a greenbelt and offset our carbon footprint.

On the market side, we see some encouraging continued investment plans in oil and gas, petrochemicals and also fertilizer and hydrogen globally. On the hydrogen business side, we are currently witnessing more opportunities coming from Blue Hydrogen, especially from the Western part of the world. Coming to India at the recently concluded India Energy Week Expo, the government's clear emphasis on the roadmap towards energy transition. With a strong focus on gas, petrochemicals, renewables and hydrogen economy was a confidence booster to us. We can surely hope for largest investment in the energy transition space.

On the supply chain, we are keeping a close watch on the geopolitical scenes around, the current shipping challenges due to Suez Canal movement concerns, and also the volatile economic outlooks in various parts of the world. We are monitoring closely and are building our strategies around to de-risk.

To conclude, we've had an encouraging nine months, and the momentum created with a good pending order book of 814 crores, along with a strong inquiry pipeline augurs well for achieving the growth plan of 30% for this year, and also sets the stage for a similar growth in FY25. I am confident, that with a good business visibility into the next year and at the strength of a strong capability at Anup. And with the continued support from our reliable partners and suppliers, we will be able to deliver on our plans. My sincere thanks to all our hardworking, committed team members at Anup, our partners, our suppliers, and all our shareholders for standing by us and trusting the brand Anup. We are ever indebted for your trust and support.

Thank you all for attending this call and for your patient listening. Happy to have your questions now. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Abhishek Singhal from Naredi Investments Private Limited. Please proceed.

Abhishek Singhal: Sir my first question, how many orders have we won since January to till date?

Reginaldo Dsouza: January of till date of this year right?

Abhishek Singhal: Yes.

Reginaldo Dsouza: Yes, so there has been no order finalization in this month January. But we hope a large portion of it to be finalized in probably next couple of weeks. So, we are working on as I said, right almost 900 crores kind of an inquiry pipeline. There were many exports, which were about to get finalized. But, because of the year end and the Western part open up quite late into the year. So, we expect those finalizations to happen anytime in February and March.

Abhishek Singhal: So, what kind of order book are you expecting at the end of the financial year FY24?

Reginaldo Dsouza: So, for the order book that we have on record so far we should be adding anywhere close to 100, 150 crores to that. And as I mentioned in my call, we are actually calibrating the order intake for FY26, as I am sure you understand that our delivery timelines for any order is average 11 to 12 months. And looking at our plan for next year and the pending order book on hand, we are calibrating it very cautiously, because for us on time delivery performance is of paramount importance. And that's where I said that we are collaborating our order book for FY26 actually now. Sorry to intervene, we need to keep some buffer capacity for short term shutdown jobs which we always keep about 5% to 7% kind of capacity booked for that.

Abhishek Singhal: Okay. And what is the impact of the Red Sea crisis on revenue and margin?

Reginaldo Dsouza: So, practically no impact for us, because largely the orders that we executed most of them had indigenous item procurement. And our deliveries were mostly either ex-works or FOB. So, from that perspective, I can confidently say we had absolutely no impact on our revenues or margins.

Abhishek Singhal: So, on FOB basis buyer immediately book revenue and delay for booked ship?

Reginaldo Dsouza: So, most of our equipment's which have gone have already passed, loaded, and moved out of the ship, and quarter four we have some of the equipment's were customer is already into booking the ship mode, and we should be able to move those equipment out from the shop. So, largely we were at a risk from the perspective of raw material intake. But we were able to maneuver that quite well. And we were able to get most of our raw material within the time that we needed for project execution.

Moderator: Thank you. Next question is from the line of Atharva Bhutada from Purnartha**.** Please go ahead.

Atharva Bhutada: So, I have just two, three questions. First would be, will our revenue booking will be similar to what it has been last two years where March has been a heavy revenue booking in quarter?

Reginaldo Dsouza: Yes, so March definitely would be better than Quarter 3 for sure, because generally quarter four is definitely loaded. But to be frank with you, it will not be as in the past because if you have heard us we have tried to maintain a very consistent quarter-on-quarter performance through largely focused on the execution side. So, it will be higher than Quarter 3 but not the kind of loading that you would have seen in the past. So, as I said we should be ending the year comfortably just over 530 crores.

Atharva Bhutada: And so, last quarter the order book was standing at 872 crores in October and right now in December it was 814 crores. So, have we increased our execution or taken a slowdown what's going on in the market?

Reginaldo Dsouza: No, I would not turn the word slowdown, largely if you see as you know December is always slow month because most of the exports in Europe and US doesn't operate during that time. And also January early a couple of weeks we lose on that. But, having said that, this is a trend which we see every year. So, we should see now the order booking as I mentioned 900 crores the inquiry pipeline which we have, which as per our timeline should be closed within next two months. And based on the strike rate, we should be able to book as I said 100, 150 crores comfortably.

Atharva Bhutada: Okay. So, there is one technical question. So, I just want to understand how do you all reduce your scrap because steel like stainless steel will be your biggest material and heavy scrap would also like cause a lot of problems in project deliveries. So, how do you all manage to reduce the scrap project?

Reginaldo Dsouza: I would not say we reduce, but what we do is as you know all our material procurement is project specific, we don't have any common material probably which is just lying in stock and we use it for any project for every project once the order comes in and the engineering drawings are made there is something called as material planning which is done specific to that project and based on that we procure material. So, for every project a plate while layouts are made, we upfront know when we have bought the material what would be the scrap percentage out of it, because we use the software to do the perfect lay outing on the plate. So, by and large, before even we start cutting the plates we very well know what is the scrap percentage coming out of it, because we try and utilize the plate to the maximum extent possible based on the shape and size of the components. So, it's not about probably reducing the scrap it is possibly probably of getting your yield highest possible depending on the shapes and cuts of the components.

Moderator: Thank you. Next question is from the line of Bhavya Sonawala from Samaasa Capital. Please proceed.

Bhavya Sonawala: So, just a couple of questions, the first, is it possible with reference to heat exchangers, are there any heat exchangers that we manufacture which don't kind of require any license and they are common in the industry?

Reginaldo Dsouza: Sorry, can you just come again, please?

Bhavya Sonawala: So, basically, just trying to understand like how we have a license, the helix license for a heat exchanger, I am just trying to understand if there are any heat exchangers that don't require particular licenses and are common for the industry to make?

Reginaldo Dsouza: Yes, there are many in fact, so what I understand is, we are talking about referring to helix heat exchanges, where we have licensee tie up with Lummus Heat Transfer. So, I would say yes, there are many common heat exchangers which do not need any specific licensee agreement. But having said that, your capability and your plan needs to be qualified with the customer to be able to do that. So, I would say on average in a year heat exchangers that we make only 20% to 25% would be licensed product and the balance would be the common heat exchangers with any of the qualified vendors into the customer list can bid for it.

Bhavya Sonawala: Okay, understood. And just a follow up on this, like you mentioned that only 25% of our order book is kind of with license. So, is that kind of countable number of licensees across the world where we can license them?

Reginaldo Dsouza: Yes. So, that will be lot of technologies which the licensor will license out. So, for example, helix heat exchanger, there's only one licensor in the globe, which is Lummus Heat Exchanger, but they have many licenses around, so similarly there are as you know we have three technologies where we have tied up one is helix heat exchangers, one is MFL technology for heat exchangers and one is polymerization reactor for reactors and vessels. So, there are many more such which are at the higher end of the segment. As I mentioned in my last call too, we are in the process of discussions with those licenses to be on board to be able to make those complex equipment. It takes time of course to get qualified, but we are on that path.

Bhavya Sonawala: Okay, thank you for that. Just my last question, in our overall product portfolio if we remove the heat exchanger what kind of market size are we targeting?

Reginaldo Dsouza: In terms of numbers?

Bhavya Sonawala: Yes, numbers in terms of how big the market is.

Reginaldo Dsouza: So, as I said, overall, the market that Anup Engineering that we are interested in. There could be something higher in the segment where we are yet not qualified and we wish to get into, but there is a very large component of product segment which is down the line where we don't intend to participate, because they would be small in size, smaller in thicknesses and based on our kind of a capability put in place we may not be competitive. So, if you look at only the segment that we wish to be part of it, roughly about 20,000 crores annually is the kind of opportunity that we see globally and out of which approximately about 50% to 60% would be heat exchangers and balance would be reactors and vessels.

Moderator: Thank you. Next question is from the line of Vijay Kumar, who is an Individual Investor. Please proceed.

Vijay Kumar: My question is, what kind of order book we are seeing in Blue Hydrogen, and can you give some picture on the EBITDA margin on hydrogen side?

Reginaldo Dsouza: So, as I mentioned in my opening remarks, on the hydrogen side we see a great push you would have seen that almost 33% of our revenue for Quarter 3 came from that. Also going forward the order booking that we have we see largely export orders coming from Blue Hydrogen side on the Western side of the world largely United States of America and Canada. So, the equipment in those remains the same for us, as we are making today, there are a large number of heat exchangers, reactors and vessels. So, that portfolio remains the same except that the designing is a little different. There are some different specifications that we need to apply. But from capability perspective and manufacturing perspective, nothing changes for us. So, we will have from product side heat exchangers, reactors and vessels. And on the EBITDA profile, we don't see much profile changing between hydrogen and oil and gas and petrochemicals or any other sector except that, we generally see a lesser number of competitor profile participating for those because you need to get qualified with those reputed customers. So, the number of people competing would be a little lower. But on the margin profile, we don't see much change. So, short answer to your question, the EBITDA almost remains the same for us whether it's hydrogen or oil and gas.

Moderator: Thank you. Next question is from the line of Aditya Agrawal from Ambit GPC. Please proceed.

Aditya Agrawal: Sir first is, wanted to understand what will be our current capacity utilization and what could be our CAPEX outlook for the next two, three-years?

Reginaldo Dsouza: So, when we talk about capacity for our kind of a business, normally we would talk about in terms of tons of fabrication that we can do. So, with our both facilities in Ahmedabad and Kheda, we roughly have about 15,000 metric tonnes kind of capacity. And the orders that we have are in the tune of 10 to 11,000 metric tonnes. So, we are roughly about 60% to 70% kind of capacity booking, we still can update about another 20% roughly to the capacity. In fact, as we said, we have already started the extension of our phase one where we had left one day manufacturing we partly build, so we are going to complete that, that would take about 15 crores to 18 crores so roughly about 18 crores kind of a CAPEX into the next year.

Aditya Agrawal: Understood. And sir the other question I have is, in terms of exports. So, currently it's about 1/3rd about 33%. So, going forward, what kind of a number you are looking at would it be similar to this or with hydrogen, the share going up probably exports could also go up forward from here?

Reginaldo Dsouza: So, this year we will end at about 30% around that number next year, we will be 40% to 42% kind of an export company. And that's sure because we already have full visibility of orders in front of us. So, pretty confident that we should end just above 40%?

Aditya Agrawal: Alright. And sir my last question is in terms of margins, the guidance that you have, so currently we are still at about 22.5%, 23%. So, let say for FY25-26 would it be in a similar range, or could this go up going forward?

Reginaldo Dsouza: So, as I mentioned, in terms of EBITDA percentage we would not see it going up too much. As we are growing, we will have to get into more and more product segments to fuel our growth aspirations and what we feel is, as I have given guidance that we would wish to grow at 25% to 30% growth rate with a (+20%) kind of EBITDA. So, that's the profile that we want to maintain, growth along with a decent EBITDA.

Moderator: Next question is from the line of Ajaykumar Surya from Niveshaay Investment. Please go ahead.

Ajaykumar Surya: Sir, my question is on, sir if you can just explain us the order cycle like do we get the orders from PPP player or direct customers and also in which part of the cycle do heat exchangers get deployed on the refinery field so, is it towards the end of the cycle or towards the beginning of the cycle?

Nilesh Hirapara: So, to answer your first question on the order booking cycle. So, any orders that we take on an average our execution cycle time is 11 to 12 months, that's kind of a product portfolio we are in, of course if there are large size equipment's it may go even up to 14 but on an average it is anywhere between 11 to 12 months kind of an execution. And when do they get, and the customer profile, largely we get the orders from EPC companies or end customers. But having said this, if you look at probably a three-year average, you will find a 50%, 50% kind of a breakup that is 50% from tender business, which is generally PSUs, in India like Indian Oil, BP, HPCL and others and 50% would be from either end users, direct end users or EPC companies. So, it fluctuates year-on-year but if you look at the three-year average you would find this kind of a breakout 50%, 50% kind of a breakup. When does the heat exchangers go and actually get commissioned, in the project cycle of course the civil takes the longest time civil and other piping and others and probably the heat exchangers would go and sit in the plant. Of course, it would again vary because it will depend on the sequence of installation which part of the corner of that whole project depending on the accessibility, but largely I would say probably about one and a half year before the commissioning or a year before the commissioning is where the heat exchangers would go and get installed on the foundation.

Ajaykumar Surya: Sir you said that our heat exchangers get deployed during the end of the commissioning of any refinery and in the Indian context if I see the oil and gas CAPEX has been towards the last two, three-years have been pretty good. So, do we see any slowdown over there or what is that is giving us confidence of this 30% growth?

Reginaldo Dsouza: So, this confidence on the 30% growth comes from two fronts. One is, as I said, on the export side, the geographical spread that we are trying to get. If you have heard my calls in the past, the precise reason why we wanted to have this geographical spread is because we know this CAPEX cycle is cyclical in nature. So, having a larger spread would help us de-risk that simplicity, and all the efforts that we put into getting into exports are manifesting into real orders now, as I said 57% of our orders come from export. And what we are seeing is the projects and export largely on hydrogen account. And also, gas account is only increasing day by day. So, we see a lot of traction coming from United States, and a huge traction on the gas side from Middle East side. So, that's something which is fueling a lot of inquiries back home. And again, on the Indian context, as I said you would have heard the announcement in the India Energy Week, the largest investment is going to be in the energy transition phase for next few years. That will be largely into doubling our refining capacity which India wants to do it before 2030. India wants to be a leader in petrochemical, so we are seeing a lot of pet chem plants coming up both in the public as well as private sector, we see a lot of PVC polysilicon, PTA plants coming up, which is a manifestation of that. And also, on the energy transition towards greener side, be it in the hydrogen segment where we don't have to do much difference it is the same product portfolio. So, for us getting into hydrogen business is a very seamless transition. So, on account of good visibility in terms of the projects globally, especially on hydrogen and the gas segment, and also back home. The projections and the investment committed by the government, we see a good traction on the investment, at least for next two to three-years on oil and gas, petrochemicals and fertilizer side including hydrogen.

Moderator: Thank you. Next question is from the line of Romil Jain from Electrum PMS. Please proceed.

Romil Jain: I just had a couple of questions. One is, you guided about 535, 540 crores of roughly revenue in FY24. So, just want to understand, that would mean largely single digit kind of growth on a Y-o-Y basis in Q4. So, I understand we have met it will be more than 30% growth for the entire years. But is there any constraint or does anything stop us from growing faster in Q4, or that will get accommodated in the coming years, which is FY25. So, just if you can help us understand that?

Reginaldo Dsouza: I would say it's more about rationalizing our entire revenue for the year, with an equated quarter-on-quarter performance. And this is something which we have been talking about, rather than having quite a high spikes in quarter, we had planned the project planning was such that that we get a consistent performance on delivery, because that is something very crucial to us. So, the quarter plan that I talk about is largely based on the contractual delivery dates of the order on hand to be delivered to the customers. So, it's largely based on the order input and the contractual delivery dates from the customers and also coupled with our execution in terms of how much we can execute in a quarter. And of course, this will see a little bit of change from next year onwards when Kheda really gets into full steam, which is expected to get into full steam from quarter one with close to 150 crores kind of an order booked for that plant already, you see a change there from quarter one onwards.

Romil Jain: Okay. So, what kind of growth are we looking for the next two, three years in terms of top line?

Reginaldo Dsouza: So, we stick to our guidance of 25% to 30% growth that we are looking at and with an EBITDA of +20%.

Romil Jain: Okay, got it. Sir, the next question is on the day that we are going to add at about 15, 18 crores. So, as you mentioned 15,000 tonnes metric tonne is the capacity right now, so, how much will this new CAPEX add in terms of the capacity?

Reginaldo Dsouza: So, this 15,000, 16,000 metric tonnes on an average. Of course, it will again depend on the product portfolio that we choose, but it should take our capacity to about 16,000 metric tonnes.

Romil Jain: 16,000, okay. And lastly on the 12 crores number in terms of revenue that you mentioned actually, I was not very clear on that, can you explain that part again?

Reginaldo Dsouza: So, what happens is largely if you see our revenue generation would be on the order book that we take from the customers based on the material being procured by us, that is we buy the material and we execute the equipment. Now, there was one order from a reputed EPC in India, where the material was on free issue basis. So, what happens is the material content is given free of cost by customers, so the value that we see is only our value addition. So, we do all the work, we execute it, but it doesn't reflect in the top line because the free show material content is there. So, just for an understanding of execution, where we stand it why that is like-to-like if you add, if the material was in our scope, our revenue would have looked like (+12) crores than what it is looking like today, it was like-to-like comparison.

Romil Jain: Okay, that means material has been given by the client, and hence it doesn't get reflected in our top line?

Reginaldo Dsouza: That is correct.

Romil Jain: Any impact you see on the Red Sea going ahead in terms of exports, because our exports are increasing. So, maybe till now we have not seen much of an impact, but going ahead do we see anything?

Reginaldo Dsouza: So, we have been talking to customers, in fact over the last month we had some results from the customers to discuss about it. So, the point is, even though our customers know the fact of this, customers know the fact that if they have to avoid this route, then they will have to take a longer route, they will have to book ships in advance. And they are already on their job. So, based on our deliveries, they are planning, they are shipping, either at Kandla Mudra Port. So, it's a fact which is now known. It's not a hidden fact, people know, and customers based on their project importance and what we understand from most of the customers is this project, their project is very critical to them in terms of execution, and they are willing to go out and look at alternate shipping arrangements to take these equipment's and be loaded there. Hopefully, this Red Sea concerns should go off quickly. But having said that, if it continues, then I am sure customers have got alternative options to take the equipment's. So, all in all I don't see based on my communication with the customer so far, that we should be impacted much. And when it comes to raw material imports, that's in our control. We are trying to indigenize as much as possible or buy from Asia, alternate options wherever it is available for us.

Moderator: Thank you. Next question is from the line of Prateek Giri from Subh Labh Research. Please go ahead.

Prateek Giri: Sir, needed a little bit of assistance in understanding the domestic, in understanding the order book numbers. So, in domestic this quarter, we have reported around 245 crores of order book. Vis-à-vis 259 crores last quarter, in September quarter this year. So, I just wanted to understand, should I add the DV SEZ order book also when I am taking domestic order book because I can see there's a good downfall in domestic order book from 330 crores in June quarter to 245 crores in December quarter. So, am I getting it right or?

Reginaldo Dsouza: You are comparing June versus Sept?

Prateek Giri: No, I am just trying to understand it sequentially. In June, we had 330 crores order book in domestic, then we had 259 and then this quarter we have reported 245.

Reginaldo Dsouza: You are reading right. So, the supply to a domestic market is higher than the order intake during this period. Yes, what you are saying is right, execution in the domestic is higher than the new orders. If you see in the June quarter, the export day and SEZ we were showing it combined. This time we had shown it separately. So, in 30th June 2023, the opening order book was 319, which is now 570.

Prateek Giri: Okay, understood sir. So, I get that the execution for the quarter domestic business was a little higher. What, are you seeing any softness in domestic demand?

Reginaldo Dsouza: Practically, I would say no, of course it has not transpired into the order book, account directly. But there's a lot of traction that we are seeing, from private players. To other big private conglomerate, we see huge traction in terms of order finalizations probably in February and March. That will be pretty good, and I am sure you will see in the results when we come out at the end of the year. On the R&D, on the PSU side, yes, because there was sudden rush of so many projects finalization we have not seen them in the past, but now we expect it to come because there are a couple of projects lined up. So, by the time the tender comes out, it is going to take probably three to four months of time that we probably get that order.

Prateek Giri: Understood sir. So, is it alright to conclude that there is some delay, but the demand is still there?

Reginaldo Dsouza: That's correct.

Prateek Giri: Understood sir, because even if you look at this quarters domestic top line, it is actually lower than the last quarter because last quarter we did around 110 crores in domestic and this quarter we did 96 crores.

Reginaldo Dsouza: So, this is all the orders which we have booked in the past, so they have a particular contract delivery date. So, based on that, we are executing. So, depending on which projects CDD falls into that particular quarter, we can't compromise because there will be otherwise LDs on it. So, so we go exactly by the contractual delivery dates, and that's how it reflects quarter-on-quarter. But having said this, pure manifestation of the demand should be what's the kind of inquiry pipeline that we are looking at, at any given point in time. So, if you have heard me even the last I said that we were around 900 crores to 1100 crores kind of a real time inquiry on hand. So, today as we speak also, we are about 900 crores of inquiries. Now, it's a mixture of both export as well as domestic. That is on the card, so it augurs well for us, as long as the inquiry pipelines which is looking good, based on our appetite for the strike rate, depending on our order book and the capacity, we take the call to take it in a particular month or not. But overall, inquiry pipeline should give us a lot of confidence.

Prateek Giri: Understood sir, very helpful. My second question on EPC and end customer is already answered. I heard that probably the mix is around 50:50 on a two-year, three-year basis. Is that right sir?

Reginaldo Dsouza: Yes, so year-on-year it will change because sometimes you would find PSUs to be almost 70% and private customers and EPC 30. The next year you would just see the reverse. So, on an average three-year basis we would find about 30 plus, 50%.

Prateek Giri: Understood. And margin profile is again, is roughly similar?

Reginaldo Dsouza: Yes, I said it's roughly similar, that's correct.

Moderator: Thank you. Next question is from the line of Atharva Bhutada from Purnartha. Please proceed.

Atharva Bhutada: I just had one question. So, since we are saying that, from the last three years, there is a 50:50, between PSU and EPC. And because we need a lot of working capital, is there any cash flow in terms of getting money on time when we take PSU orders or are we seeing a lot of delays?

Reginaldo Dsouza: No, we are pretty happy with the cash flows. We are getting our money's on time, whether it's PSU or private customers, we are working with most of the reputed customers globally, and we are getting our payments on time, both advances as well as final dispatch payments. And that's exactly the reflection that you see on our working capital returns if you look at we have 4.3 tonnes in this quarter, which is I believe very good, if not the best, and that's a pure reflection of collections of money and also receipt of advances.

Moderator: Thank you. Next question is from the line of Bhavya Sonawala from Samaasa Capital. Please go ahead.

Bhavya Sonawala: Just one question, when we talk about probably our expertise of strength or the skill that we have, is it possible to explain the importance of design and fabrication is one more important than the other, if you can just throw some light on that?

Reginaldo Dsouza: I would say both are important, because as I said we don't have a standard product, we have every order that we get is a customized order sort of made to order to customer requirements. So, it all starts from engineering, which is an extremely, extremely important phase, because it is quite technical in nature, you need to understand the details of the parameters that the equipment will operate in, which country it is located based on the ambient conditions that our parameters would change. So, design is definitely important and to add it to that, manufacturing because as I said this is a manufacturing which we make and the ASME code and we need to abide by all procedures and processes that align with that. So, the welding is extremely crucial, NDT that is you can't have any defects it has to be defect free. So, I would say engineering and manufacturing both are equally important for execution of the projects on time.

Bhavya Sonawala: Okay. And when we probably talk to our customers is it on these two levels engineering and probably manufacturing or is it one whole, is it like a particular order given as a whole, there is no different two segments to it?

Reginaldo Dsouza: No, we get a complete order right from engineering to procure of material, manufacturing and delivering to the point of their call.

Bhavya Sonawala: Okay. And have we had any order where we have to only do the manufacturing and probably the design or the engineering part is given to us by the client?

Reginaldo Dsouza: Yes, sometimes we do especially when there is a repeat project like for example, if they have commissioned phase one or train one and they are putting an exact replica of the second then they would give us a drawing and then we would make as per that drawing. As possible, but I would say for 100 it could be one or two cases in that nature rest all we would be designing to fabrication to delivery.

Moderator: Thank you. The next question is from Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Firstly, sir for the Kheda part you mentioned that we are preponing, it has been mentioned in the press release that we are preponing the CAPEX, and we will be ready by Q1 of the next financial year and order booking is to the tune of 150 crores, this understanding is correction sir?

Reginaldo Dsouza: Yes, order booking so far for Kheda is approximately 150 crores for next year.

Saket Kapoor: Yes, and what would be the execution period for the same?

Reginaldo Dsouza: All would be in the 12 months period, so you should see a 150 crores kind of a turnover coming from Kheda next year.

Saket Kapoor: Okay. And that will cover our fixed cost sir, 150 crores?

Reginaldo Dsouza: We will be surely profitable.

Saket Kapoor: Okay. Sir when we look at our Q-on-Q numbers, if we compare our December quarter with the September numbers, we find a dip in turnover, and I was just listening to your answer where in some of the order that we have executed there in we have not taken the impact of the material costs. So, that is the only reason why we have seen a dip in turnover from 140 to 128 crores or is the order mix that has resulted in the same?

Reginaldo Dsouza: Largely it is because of that, but historically also if you see and I am sure you would have heard me on the call that, Q1 and Q3 this will be the two quarters which will be marginally lower than Q2 and Q4, on a lot of things like in Q1 it is more of holiday time right schooling and other, so we see an absenteeism of 30%, 40% of the skilled labor. So, that's the reason why Q1 will be a slight dip and Q3 also because we have Diwali. So, the plant is shut for seven days of the quarter. So, Q3 and Q1 historically and also going forward you will find it a little lower than Q2 and Q4, but not like what was seen in the past that we had a very large spike, we are moderated, we are planning such that we don't see a large impact. So, on that count, if you look like to like probably the Q3 has been better.

Saket Kapoor: Yes, sir whatever you have committed in terms of the vagaries in revenue quarterly basically that has now been evened out, and we are getting the same set of execution for quarterly basis given the minor aberration. So, thank you for that. So, for the year as a whole we are likely to close at 540 levels, this is what you have committed earlier in the call.

Reginaldo Dsouza: Yes, we are +530 so around that number.

Saket Kapoor: Okay. Sir, when we look at the last point on the other expenses part that has gone up Q-on-Q basis even on the lower revenue, so what explains this 4 crores increase in the other expenses?

Reginaldo Dsouza: So, you are looking from Q2 versus Q2, or Q3 versus Q3?

Saket Kapoor: Q3 versus Q3, September '23 versus December '23.

Reginaldo Dsouza: Okay, so one major factor would be, so sometimes on some of the product which we sell, it is subject to a royalty. So, Helix Heat Exchangers whenever we make a supply we have to pay a royalty. So, probably that's the number which you see in our result and in Quarter 3, we would not have paid much royalty as compared to quarter two.

Saket Kapoor: I missed the point; can you please repeat once again?

Reginaldo Dsouza: So, the royalty, so some of the equipment like our Helix Heat Exchangers whenever we make and deliver such equipment's we have to pay royalty to the licensor as that comes as other expenses.

Saket Kapoor: Okay. So, this was the case for this quarter, we have Helix Heat Exchangers being delivered.

Reginaldo Dsouza: That is one reason other than that power and fuel cost has gone bit up because Kheda operation has reinstated well. So, these are the two major factor for higher other expenses in this quarter.

Saket Kapoor: And the finance cost part sir, that has also been quite a bit different number although very small base but if you could explain?

Reginaldo Dsouza: So, till now, on the loan part is Kheda plant was under commission we were capitalizing the finance costs as per the accounting standard, as Kheda plant has commission that course is now coming to a P&L, right now the date is at roughly 40, 41 crores of which 20 crores is paid in the month of January. So, I assume that cost would come probably the 50% of what it is in Q4.

Saket Kapoor: And lastly sir on the cost of material consumed to the revenue, this percentage depends on the order mix part but what should we penciling-in in terms of the cost of material consume to the revenue profile?

Reginaldo Dsouza: So, based on the current product portfolio that we are executing, we should see it in the region of 50% to 55%. Of course, as we keep moving up, probably next year and year after we get into more and more niche segments, this percentage could go up. But as we speak, based on the current profile, it should be anywhere between 50% to 55%, depending on the product portfolio.

Moderator: Thank you. The next question is from Naysar Parikh from Native Capital. Please go ahead.

Naysar Parikh: The first one is that, in your order book obviously, the domestic export mix is very different than what we have currently. So, just can you talk a bit about between domestic and exports in terms of the kind of product we are selling, or margin, et cetera is there a significant difference or how should we look at it?

Reginaldo Dsouza: Yes, so on the export side, we largely see the orders coming in from hydrogen projects, Blue Hydrogen especially, and it is coming from the regions of the United States of America, Canada and Nigeria. That's a major inflow when you look at the order book numbers, in terms of margins, I would not say that there's much difference between domestic and export. But as I said, in the past two, exports always give us a percentage or to better margins at the end of execution on two counts, one is the advances are better. So, advances are better as compared to domestic projects. So, we end up making some money there and also on the FOREX side, generally when we estimate we are conservative on the FOREX side, so by and large we tend to make money at the end of execution. So, at the order book level, both would look the same, but at the end of execution, yes, export would turn out to be a little better than domestic.

Naysar Parikh: Got it. And you mentioned that there is obviously some slowdown on the order intake on the domestic side. And you obviously said that there are inquiries good. So, generally, can you just give, can you talk about like are you seeing that the next few quarters, we will see separate demand at the domestic side will take some time to catch up or how should we think about it. Because generally for others, we are not seeing this kind of a domestic order book slowdown, at least on the capital good side?

Reginaldo Dsouza: Yes, so as I said there is a big inquiry pipeline even for domestic, especially for pet chem projects. And what we see based on our discussions with customers, we should be seeing them materializing in the month of March, pretty larger pieces of inquiry, the order intake should start flowing from March up till next month onwards. And most of it is coming from private players, large private conglomerates in India.

Naysar Parikh: Got it. And on the heat exchanger side what proportion of your revenue was generally replacements versus actually new clients, new orders?

Reginaldo Dsouza: Again, would fluctuate year-on-year but, I can say probably about 7% to 8% is replacement rest goes for greenfield or brownfield expansion projects.

Moderator: Thank you. Next question is from Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Sir, a small point in terms of how we closing this year, if we look at our quarterly performance, it has been more or less stable as reported also in Q1 and Q3 having a slight impact on the lower side. But when we just do the back envelope calculation, Q4 last year was closer to something like 144, 140 and this year also we are contemplating an execution of in a similar. So, what are the constraints, why are we not able to close the year on a growth rather than being very flat, if you could just explain that point?

Reginaldo Dsouza: So, it is largely as I said earlier, it's all about how we have planned at the beginning of the year, we had a good overview of the entire booking for the year. So, we had a substantial order book position based on the contractual delivery date, we have planned the execution such that we don't land up into any delays. And that's how it has been planned. So, we are very clear of, what are the kind of equipment's which are the orders that we are going to execute in Q4. So, it's a pure reflection of the order intake and their execution capabilities. So, of course having said we could try but as we see this is what the number looks like based in the planning and the context of delivery dates of those equipment's.

Saket Kapoor: Sir, you spoke about strong order pipeline in the pet chem segment and also for the PVC part, sir if I heard you rightly?

Reginaldo Dsouza: Inquiry pipeline, yes.

Saket Kapoor: Both for the pet chem and PVC segment?

Reginaldo Dsouza: That's correct.

Saket Kapoor: And sir so what kind of, what could be the size of the order that we may be bidding for these and these are long gestation period so for pet chem and PVC. So, if you could give some more color, what are we eyeing sir?

Reginaldo Dsouza: So, even for pet chem and PVC, the product portfolio that we deal with it will be somewhere around 11 to 12 months kind of an execution for us, because that's a product portfolio segment we are in, the overall inquiry bank, as I said as we speak now, we are standing at an inquiry pipeline of about 900 crores to be finalized in a couple of months period.

Saket Kapoor: Okay. So, on closing order book of 813 crores and an executable of 140 crores for the next quarter, we will be replacing our order book to that extent, what should we contemplate to close FY24, 31st March closing order book to be in the likelihood.

Reginaldo Dsouza: So, as I said we should be adding about 100 to 150 crores of order book based on the choices that we make, because we also have to take care of our deliveries. So, based on that, if you look at the execution we should be maintaining this pending order book position.

Saket Kapoor: We should be closing somewhere in this level only 820?

Reginaldo Dsouza: If you execute about 140 around and we add 140 so it will remain the same, only thing is, out of which closed to about 700 should be executable in the next year and balance would go into the year after. So, we would maintain the growth trajectory that we mentioned. So, we should be comfortably doing 25% to 30% growth even next year.

Saket Kapoor: Okay. And does this includes 150 from the Kheda facility?

Reginaldo Dsouza: That's correct.

Moderator: Thank you very much. That was the last question, I would now like to hand the conference back to Mr. Reginaldo Dsouza, for closing comments.

Reginaldo Dsouza: So, thank you. And I once again, take this opportunity to thank my wonderful team, the Anupites, I call them and to each and every one who has contributed to this performance. A big thank you to all of you, our shareholders for your trust and standing by our side always. Thank you, and on behalf of my team at Anup, I wish all of you a very happy, healthy and prosperous life ahead. Thank you. Thank you so much. Bye, bye.

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

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