"The Anup Engineering Limited

Q2 and FY27 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Q2 and FY27 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

Before we proceed to the call, let me remind you that discussions may contain certain forward-looking statements that may involve known and unknown risks, uncertainties, and other factors. It may view in conjunction with our business risks that could cause actual results, performance, or achievements to differ significantly from what has been expressed or implied in such forward-looking statements.

Please note that the company has uploaded the result, press release, investor presentation, and also the outcome of the board meeting on the website of the stock exchange and website of the company. I now hand the conference over to Mr. Reginaldo D'souza, Managing Director and CEO of the company. After the speech of Mr. D'souza, Mr. Punit Lalbhai, Chairman and Non-Executive Director of the company, will give insights of the company's performance. Thank you, and over to you, sir.

Reginaldo D'souza: Thank you. Greetings from team Anup to all the members present on the call. I will take this opportunity to give a brief on our performance for Q2.

I'm sure we all understand the current global uncertainties and the associated headwinds for our business. With this consideration, I sincerely believe that our company has been able to hold ground and continue gradually towards its annual goal. As explained during the last call, we did plan a gradual revenue build-up from quarter one, quarter two, and a strong H2.\

Despite the longer-than-anticipated disruptions in supply chains, elevated energy prices resulting into higher raw material costs, and also more than double shipping costs due to the ongoing wars, we have been able to maintain the desired progress on most projects in line with our customer contractual requirements.

The revenue numbers for H1 are in line with our plan, and new projects are moving well on the shop floor, with good revenue milestones landing in quarter three and quarter four. The consolidated revenue for quarter two has been INR182 crores, a 46% increase from quarter one, with an EBITDA of INR17.5 crores at 9.6%.

This margin is a reflection of under-absorption of fixed cost due to lower revenue. Fixed cost remains on plan at INR62 crores. The margins will improve with substantially higher revenues planned in H2, helping fixed cost absorption. The material cost has been elevated at about 6%, with inward freight contributing to about 2%.

This is largely due to the impact of higher raw material cost and the freight component. The exports of the total revenue has been at around 50%, which is which is as per our strategic intent.

The conventional energy sector is demonstrating good traction, with about 80% revenue coming from oil and gas, petrochemicals, and thermal power.

On the product segment, heat exchangers contributes to about 51%, 42% on vessels and reactors, and 7% from silos and other components. The order booking continues to be encouraging over the last three quarters. The new order booking for this year has been INR674 crores as on date, which has surpassed the order booking for the whole of last year.

The pending order book as on date is INR947 crores. With good opportunities on hand, we are confident of continuing the momentum on the order booking going forward. On the strategic developments, we continue the focus on getting into more complex and proprietary products. We are glad that we have added a few important products in H1, namely two products of Lummus Technology, Netherlands, one each of TKIS, Germany, and L&T. These are all high value per equipment business, with very less competitions, largely from Tier 1 manufacturers, thus improving our order conversion.

We continue to pursue with this two more important global licenses, and, all going well, we should complete qualifications in this year for these two more licenses. And as articulated earlier, we now move with a very strong focus on critical and proprietary licensed equipment.

On the capacity front, with our three locations, that is Ahmedabad, Kheda, and Chennai, we can deliver about 20,000 metric tons per year, with approximately INR1200 crores revenue. Our technical and site services business is moving strong, with three sites under execution at this point in time. Completion of these projects is planned in H2.

To give you a brief on the overall market outlook, we see a very strong traction for conventional energy mix for oil and gas, petrochemicals, and thermal power. Fertilizer projects are also hitting ground more than expected in India, Africa, and also in South America. We see thermal power strong at least for the next 3 years, especially in India.

Nuclear also pose strong opportunities in the future. We strongly believe that the energy security, energy demand to fulfill growth aspirations of developing nations, and the exponential electricity demand for new-age technology means the conventional energy mix will see strong demand for the next 8 to 10 years. Cleaner energy, we will also see momentum in many regions of the world to tackle climate change.

On the financials for this year, I believe with a clear visibility on projects to be executed in the balance 6 months of this year and cost defined to a large extent, we have a fairly good visibility. With Quarter 3 and Quarter 4 ramping up on revenues, we should end the year with a revenue between INR840 crores to INR860 crores, with an EBITDA in the range of INR120 crores to INR128 crores.

Further, a pending order book of INR941 crores means around INR400 crores carry forward for the next financial year, which covers almost 5 months' revenue for the next year. And with good business opportunities in the next few months, we will be able to maintain a healthy order book to ensure FY28 revenue growth of about 20%.

We will continue to navigate the current global uncertainties, with supply chain and shipping still being a challenge, and strategize to protect our costs. Hopefully, the wars should settle down, opening crucial shipping waterways, easing the energy, and thereby the downstream costs.

With this, I will end my opening remarks and would hand over to Punit for his comments.

Punit Lalbhai: Thank you, Regi, and good afternoon to everyone. It's a pleasure to be here. Regi has very comprehensively covered the status of where we stand today, so I will be extremely brief. I think a couple of themes are very important, and one should focus on those for the remainder of the year.

I think number one, though we've had a very disappointing H1 compared to our historic performance over the last 3-4 years, the number to track is the laddering up of revenue from Quarter 1 to Quarter 2. And as I have reviewed things, the second half of the year has started off well, and we are quite well-positioned to achieve that further ladder up and climb back to historic levels, which we should approach by the end of the year. So, we are looking forward to a strong H2.

The second theme that I'm particularly pleased about is the all-time high orders in hand. I don't think we have ever had above INR900 crores pending order book. So, that points to a healthy future, a strong H2, and on current trajectory, a very strong Financial Year 2028. It's also heartening to see that the new orders that are coming in are coming at much improved margins despite a very challenging raw material scenario.

So, on the whole, a challenging first half to the year, predominantly driven by our challenged order booking the previous year. This year's order booking, however, is very encouraging. So, overall, we feel that we are headed in the right direction, and we should deliver on these promises.

So, with that, I will end my comments and open the floor for questions, and would request Regi to take the lead on answering questions, and I will jump in as and when required. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jay Negandhi from Ambit Capital. Please go ahead.

Jay Negandhi; Hi, good evening. Thank you for the opportunity. I just wanted some clarification on the order intake and backlog numbers. While I understand we have given the number till date, but I would appreciate if we would get the exact number for the quarter ended in September. That would give us some clarity? Hello. Hi, am I audible?

Management: Yeah, Jay, so our new order intake or the closing order book for 30th September 674.

Jay Negandhi; I'm sorry, I couldn't hear you. What?

Management: Regi, you're cutting out. We can't hear you.

Moderator: Hello? Sir, your voice is not audible.

Management: Hello? Yeah, Jay, can you hear me now clearly?

Moderator: Yes, sir.

Jay Negandhi; Yes, sir. Better now.

Management: Yeah. So, our pending order book position as on 30th September was 864. As on date is 941. And if you want the exact new order intake for this financial year, YTD as on 30th September was 597 and as on date is 674.

Jay Negandhi; All right. That that is very helpful. Thank you so much. My next question is that we secured orders for three proprietary licensed products, and we plan to add more equipments going ahead. So, I just wanted to understand the lay of the land, like you know, what are these products, and how will they expand our opportunities all over, and will these be margin accretive, and basically the these things?

Management: Yeah. So, Jay, as explained earlier, these are the proprietary Tier 1 products which are basically into the niche segments, and we have limited competitions. So, these broadly would allow us better conversion, since we are going to compete with only two or three in the world. And the second is these come with a very large value per equipment.

On an average, it would be about INR8 crores to INR10 crores per equipment, unlike the average that we have today of around INR3 crores per equipment. So, so largely these help us to compete better, have a better conversion, and also have very less number of equipments on the shop floor for execution.

Jay Negandhi; All right. Understood. And if I could just add one more, I wanted to understand our geography mix now. So, export revenue for first half were close to 49%, but currently in the backlog, export orders are close to 33%-34%. So, are we expecting more orders to come from export side in the coming half when once the geopolitical tensions cool off? Or how are we looking at that mix going ahead?

Management: Yeah, Jay, irrespective of the geopolitics, I believe from the current backlog of inquiries that we have on hand, we have a larger ticket size of expected orders coming from exports. So, largely squarely, we would come back to about 50% average exports even for the next year.

Jay Negandhi; Okay. Thank you so much. I'll get back in the queue. All the best.

Management: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Mohit Surana from Monarch Networth Capital. Please go ahead.

Mohit Surana: Good evening, sir. Thank you for the opportunity. Sir, again, one question on the order book. I think that includes Letter of Intent. Can you just give a breakup how much is the Letter of Intent in the order book currently?

Management: So, broadly Mohit, good evening. So, broadly, the Letter of Intent is where we get a confirmation from the customer with zero date to be started off, and the official PO follows in maybe 2 to 3 weeks down the line. Now, if you want the exact number of LOIs, that number is about INR40 crores is coming from the LOIs.

These are nothing but confirmed orders, where zero date has already started in and we've also started work. It's just a regularization of the PO, which normally the EPC companies and public sector units take some time to deliver the actual POs.

Mohit Surana: Perfect, sir. Understood. Understood. And, sir, in terms of your order intakes, what kind of run rate we are expecting say maybe Q4 onwards? Currently, I mean you mentioned it's roughly, for Q2, I think it was around INR140 crores was the kind of order intake, if I back calculate. What kind of run rate we are expecting from Q4 onwards, if things normalize?

Management: So, for new order book, if you see, if you back calculate, I think the Quarter 1 was roughly about INR310 crores. Quarter 2 was 283. And our intent going forward also is, considering our cycle time of about 12 months from order to delivery, considering our capacities in place, we should be booking INR250 crores to INR300 crores every quarter.

Mohit Surana: Understood, sir. That's helpful, sir. Thank you so much.

Management: Yeah.

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

Saket Kapoor: Yeah. Namaskar, sir. Hope I'm audible.

Management: Yeah. Namaskar. You are. Go ahead.

Saket Kapoor: Yeah. Thank you, sir. Sir, just to reiterate what you mentioned in your opening remarks that H2 would be more of a normalized run rate and we will be looking to close the year at around INR800 crores of top line? That that is what it is. And the EBITDA number you have given is at INR128 crores? So, please correct me on these two figures.

Management: Yeah. So, we have provided the guidance in terms of a range. The top line, which should be anywhere between INR840 crores to INR860 crores. And on the EBITDA, we should be INR120 crores to INR128 crores within this range.

Saket Kapoor: INR120 crores to INR128 crores?

Management: That's correct. So, on an average anywhere between 14% to 15% EBITDA margins and a top line of around INR840 crores to INR860 crores.

Saket Kapoor: Okay. So, what would lead to now the expansion in the EBITDA margin because the revenue will move up by say around, something around 200 -- will inch to 200, or slightly above 200, but the margin expansion would be significant. That is what the color should be if these numbers are going to be if these numbers are delivered.

So, if you could just explain what will lead to this significant margin expansion, and then on the pending order book on which we had lower margins, we have been able to complete the execution. If you could just give some color of what changes have happened that would lead to the significant expansion in margin.

Management: Yeah. So, so if you look at the executions in quarter one and quarter two, these are largely the orders that we booked in H1 of last financial year. So, if you look at last financial year numbers, we would have booked around INR250 crores kind of an order book, as against our average requirement of about INR500 crores to INR600 crores. So, broadly, squarely our H1 order booking of last year was poor, and that that came in with a rider that we had to move very aggressively to book orders.

If you have heard me on the call, we had to book some orders on very, very aggressive margins just to cover up our fixed costs. And those are the ones that actually getting executed in quarter one and quarter two because our order to delivery cycle is roughly about 11 to 12 months. Now, what we have booked subsequently in quarter four of last financial year and quarter one of this financial year, we booked that at a much-improved margin as compared, because we could actually build up the actual cost of raw material as on today.

And those are the items which are at a much-improved margins, which are going to be reflecting into the revenues for quarter three and quarter four. And that is how the if you look at quarter four, our margins for those will be 20% plus for the quarter four execution because we have taken it back to our improved margins. So, on an average start basis, we will land up into 14% to 15% margin profile towards the end of the year. So, largely in short to answer, the revenue that is lending up into quarter three and largely in quarter four are coming with a much-improved margins.

Saket Kapoor: Okay.

Management: Also, Regi, there is the fact that in quarter one and quarter two, we've there is a huge under-absorption of fixed costs, because the revenue hasn't been there, right? I mean, our revenue has been low because of low order booking in the first half of the last year. Therefore, fixed costs are eating away the margin.

Management: That's correct. That's correct.

Saket Kapoor: Correct, sir. So, it is safe to assume that last year quarter two EBITDA margin of this 20%-22%, that was a comparable number for this quarter, are achievable at quarter four execution. That that could be a good understanding?

Management: Yeah. So, if you actually put the numbers together, for us to come to an EBITDA of 120 and 128, which is roughly about in the range of 14% to 15%, your quarter four will have to be around 20% to 22%, if you work out arithmetic. And since we have a very good clarity in terms of which projects are going to be completed during quarter four, and the cost we have on our hands, so we've actually worked out the numbers. So, your assumption is right.

Saket Kapoor: Okay. So, we have worked for the RM part and all the cost escalation impact also, while projecting these numbers? So, that has been taken care of.

Management: Yeah. So, only thing is, as I mentioned in my opening remarks, shipping is something which is still uncertain. But largely, I don't think it's going to get escalated beyond this so much. So, but largely, yes, it's taken care of.

Management: Yes. So, if we execute to plan, those should be the numbers.

Management: That's correct.

Saket Kapoor: Sir, and about this consultancy part of the story, if I did not attend last call, so beg your pardon for that. How is this business shaping up? I think so some from very high this is a high margin business which we were contemplating to develop over a period of time. So, if you could just throw some color where are we in terms of our preparation, and when will the execution or the deliverables for the consultancy business we would be able to depict in our numbers?

Management: Yeah. So, this is this was a vertical which we term as Anup Technical Services, which is nothing but the health check assessment of equipment at site, repair work at site, and also some amount of site fabrication. We did as I mentioned, we did some dipstick study last time and did some projects which was successful.

Now, we have created a vertical for this. This year, we expect this business to be around INR50 crores. We've got some very good traction in the first six months. We are executing also multiple projects at this point in time, and the margin profile is anywhere between 30% to 40%. Just being it's a repair work, so obviously, the margins we expect are much higher than our normal products.

So, the margin profile would be in the range of 30% to 40%. And this year, we expect this to be around INR50 crores. And as I mentioned, our strategic intent is to take this business to about INR200 crores in the next three years.

Saket Kapoor: Correct, sir. And for the Mabel contribution, sir, can you outline how is that unit, and I missed the Chennai part of the story. What have been our manufacturing skill capabilities there and what kind of capacity have we built up for the Chennai unit?

Management: So, Chennai, as you know, this was an acquisition which we broadly did to one, for two reasons. One was to have a geographical spread down South of India. And the second was to acquire the capability of silos and tanks. These are nothing but some products where we were not qualified with EIL. And that's the reason we got these two products. Last year, Mabel was about INR43 crores.

This year, based on the order booking and the progress as on date, we should end the year close to about INR65 crores to INR70 crores coming from Mabel. So, significant contribution coming from there, almost twice the turnover of last year. And would be a significant part going forward in the next three years.

Saket Kapoor: If I may add, sir, how does the order booking shape up for the for Mabel as an entity? And secondly, on the borrow borrowing part, although borrowing and the capex part, any kind of capex that is required to be done by us, by in terms of this execution part, we did around INR13 crores, INR14 crores is what we see in the cash flow. So, what is the number that we may look forward?

Management: Yeah. So, on the capex side, Saket, with the last piece of expansion which is on right now at Kheda, which is nothing but a covering of one of the bays, with this quarter, we would have done with our investment in terms of capacity expansion. No more capacity expansion. We may invest incremental for capability going forward. But largely, no further investment in capex for capacity at least for the next two years.

So, I believe this is a time where we've put in capacity in place, and now we would be milking these investments going forward. At Mabel specifically, we don't intend to do any capex, at least for the next two years. We have three manufacturing bays there, and I believe we have a runway for the next two years at Mabel.

Saket Kapoor: Okay. And, sir, one more figure. You mentioned that at optimum capacity, the total infrastructure that we have today, we may exhibit a revenue run of INR1200 crores at optimum? That is what the number should be?

Management: That is correct. So, the current capacity with all the three plants put together as is today is roughly about 20,000 metric tons per year, which should convert with a with a fairly good product mix of INR1200 crores revenue for the year.

Saket Kapoor: Okay. And taking into account the bid pipeline part, and the order booking currently, and also in the time to come, what are we anticipating, or what should be a good number, although it's very far for us, but four months down the line, when we close the year as a whole, what kind of order book would be a good number to reach closer to this INR1200 crores optimum capacity? What should be eyeing, sir, or are we eyeing in terms of the same?

Management: Yeah. Yeah. So, so considering our current order to delivery cycle of 11 to 12 months, and the capacities in place, we broadly, at any given point in time, should have a pending order book in between INR800 crores to INR900 crores. And what we believe, based on the current order book and the inquiry pipeline on hand, come 1st of April 2027, we should open the year with an order book position of INR800 crores to INR900 crores.

And that has been our strategic intent always that 80% of the turnover for the year, you should open up with. 20% capacity, we generally keep for short-term delivery items, which are shut down and others, where there is an opportunity to garner higher margins. So, so 80% of your annual turnover, if you start the year with, should be a pretty decent number. And just to reconfirm, we should be opening the year with an order book of INR800 crores to INR900 crores.

Saket Kapoor: Okay. My last point, sir, I missed it, that the CWIP closing balance for September is closer to INR8 crores. So, this is all maintenance capex type of work, the money that is pending, or what should we read this number to? INR7.77 crores.

Management: So, this is on the current capex that is on. As I said, in Kheda, we are covering the bay number one. So, that's the pending in progress, which we should wind up by December.

Saket Kapoor: Right, sir. Thank you, sir. All the best to the team. Happy Deepavali and a prosperous Samvat ahead. I'll join the queue, sir. Thank you.

Management: Thank you, Saket, and wish you too a very Happy Diwali.

Saket Kapoor: Yeah.

Moderator: Thank you. The next follow-up question is from the line of Mohit Surana from Monarch Networth Capital. Please go ahead.

Mohit Surana: Thank you for the opportunity again. Sir, if you can give some understanding of our Middle East exposure. I think the Q1, I mean, was the period when we faced the most impact, and one of the reasons was our exposure to the Middle East. So, just wanted to understand how much is our exposure currently, and how are we looking to further diversify so as to insulate us from, you know, future geopolitical concerns?

Management: Yeah. So, Mohit, just to clarify, I don't think our Q1 was because of our exposure to Middle East, because, as you know, largely our contracts are FOB India port. The movement from India port to the site is generally the customer's responsibility. So, largely if you look at our annual turnover and historical numbers also, Middle East generally account for about 30% of our revenue for the year.

And it's an important region. In fact, we are focusing on growing that vertical still further because of a lot of opportunities in that region for gas projects, especially. And in Middle East, generally, we are working with only two broad-based customers. One is Saudi Aramco, and the second one is ADNOC, Abu Dhabi National Oil Company. These are the only two focus areas which are more secure and consistent in terms of the business.

The other part to your question of how are we trying to grow this further. So, as I explained, we have a very focused approach on expanding geographically. Now, which are the regions? Of course, United States is a very strong part, which we want to take about 30% of our exports coming from United States, and some parts of Africa, which is Nigeria and Kenya. These are the two strong regions where we are focused on expanding our business going forward.

Mohit Surana: Understood, sir. Sir, next question is with respect to our order book. So, we have a strong inquiry pipeline. Can you give a sense of what has been the historical conversion rate for these inquiry pipelines and what kind of conversion rate we are expecting going forward?

Management: So, our historical conversion, Mohit, has always been 15% to 20% of the total inquiry pipeline, and that has been our intent too, because we can have a higher conversion by compromising our margins. So, that has never been our intent. We want a larger funnel and pick and choose from them. So, obviously, our intent was 15% to 20%. But with the strategic intent now of moving into more and more complex and critical products, the conversion would be a little better. Based

on our numbers, our conversion should be about 25% going forward, up by about 5% from the historical 20%.

Mohit Surana: Understood. Sir, the last quarter, you also mentioned that we are moving up the value curve and taking up slightly higher value projects, and there was also some comments on the competition. Can you give us some outlook this time? How is the competition shaping up for you, and how are we gearing how are we making our ourselves ready for that?

Management: Yeah. So, broadly our strategy has been, Mohit, you're right, to move into the niche segment, which is nothing but more and more proprietary and licensed products. This gets us into directly the Tier 1 competition. And if I have to name in India, in the Tier 1 competition would be L&T, Godrej, ISGEC. And this would be the three competitors which I can name along with Anup Engineering now being part of that league.

Mohit Surana: Got it. And, sir, I mean, in our effort to increase the order book and also take up orders for the licensed products, do those licensed products' orders comes with lower margins, or how should we look at it? Because I think I'm sure we must be paying some royalty to or licensing fee for those kind of products, right?

Management: Yeah, we do pay royalty. But having said that, that royalty is applicable to all the competitors. So, it's a level playing field, and it's built up in into our cost when we estimate. So, it is not negated from our margins. It is a buildup of our cost and equal playing field with all the competitors.

Mohit Surana: Right. So, even in these kind of products, we can expect somewhere close to 20% kind of EBITDA margins?

Management: So, I would refrain by putting a number, Mohit, directly on 20%. See, as I explained earlier, what does these products do is that they give you larger value per equipment, right?

Mohit Surana: Right.

Management: And this since this being critical, generally the material component in this will be fairly higher than your normal carbon steel, whereas your value add would almost remain the same. What this kind of product does is two things. One is, with the same tonnage, it helps you to build a higher revenue and a higher absolute EBITDA, right? So, EBITDA growth is much higher from the same capacities you have in place.

And also, it lowers down the competition with three or four in the world, where your chances of winnability are much better. And we, as a new entrants in this league into this product, would always be very competitive as compared to the well-settled, established players. So, percentage -- EBITDA percentage per se would be lower, but it will help you to get higher absolute EBITDA for a particular tonnage of conversion, which I think I have explained even in the past.

Mohit Surana: Right.

Management: I hope I have clarified that.

Mohit Surana: Yes, sir. That is clear. Sir, one last question from my side just for clarity's sake. Most of the concerns that we faced in the past, and not just you, many other cap goods companies have faced, this time the gross margin erosion has been there because of the increase in raw material costs, increase in shipping cost, mostly related to the increase in oil prices and the geopolitical concerns.

So, for us, the H1 was not great, but what has changed or what new strategy are we adopting in order to improve our performance in H2? You may have answered this question, but some more clarity on this will be I will really appreciate that.

Management: Yeah. So, broadly, Mohit, what I would say is that the projects or the PO orders that we took in the later part of the year, that is Q4 of last year and Q1 of this year, which is landing up into the execution for quarter three and quarter four, were at a much improved margin profile, because we could actually estimate the latest cost, which is, of course, an elevated raw material cost, and we could build into the into our estimation model.

So, the margins were much improved margins, because we could actually estimate the cost. Whereas in H1 of last year, that is Q1 and Q2, two things happened. One was, of course, there were trade tariffs which lowered down the complete order intake. And since we had to take orders to keep our capacities going, we had to take a conscious call to take approximately about INR250 crores to INR300 crores kind of an order booking at a much, much aggressive margins.

So, it was a conscious call because of the scarcity of orders in the market at that point in time, which landed up into the execution in H1 now. And what is landing up into H2 are the orders with a much improved margins, which we took mostly in quarter four and quarter one of this year, considering our average cycle of 11 months to 12 months from PO to delivery.

Mohit Surana: Understood, sir. That's really helpful.

Management: Mohit, the order scarcity and starvation in the first half of last year is a bigger contributor to the to the challenging performance than the raw material and geopolitical impacts. Both have compounded, but that is the bigger component, and that scarcity is no longer there, which is what is giving us confidence.

Plus, the raw materials hit us because we were midway through our procurements when all the escalations happened. Now, the world is readjusting to the new raw material environment. So, while going back to historic EBITDA margins is still challenging, we are getting very close to that in the new order intake.

Mohit Surana: Understood, sir. I think this was very helpful. Thank you so much. And wish you all the best.

Management: And to add to that, Mohit, like what we are now quoting for the inquiries, we are already building in the actual cost, which is a much elevated raw material cost as of today. So, that covers up more certainty in terms of the margins.

Mohit Surana: Right. Understood, sir. Thank you so much. That's all from my side, and wishing you the best.

Management: Thank you, Mohit.

Moderator: Thank you. The next question is from the line of Sameer Thakur from Ambit Private Capital. Please go ahead.

Sameer Thakur: Hi. Thanks. Sorry, I joined the call a bit later, so it could be a repeat, but I just wanted to know, thinking about 3-4 years down the line, in terms of capabilities, where do you see? Like new product launches or where you want to get into new industries, new geographies. What is the plan?

Long-term plan, just like 3-4 down the line. I know you're getting into technical services side and that is doing well and probably that will scale up over 2-3 years, but apart from that, any new product launches, new geographies and any diversification you're thinking of, that will be helpful.

Management: Yeah. So, looking at 3 years to 4 years, Sameer, of course, our strategy is very clear that for the conventional legacy old products, we will move up the ladder in terms of value chain, that is building more and more proprietary and critical equipment. That's one. Second, of course, as you rightly said, the Anup Technical Services is something which we want to grow because this is a very profitable margin as per us.

So, we wish to take that bucket to about INR200 crores in the next 3 years. And the third bucket would be diversifying into precision components in a sense of making more and more machined items. We have right now on the shop floor for the cause of confidentiality, I can't disclose the customer name, but we have right now one execution on the shop floor, which is on the turbine machining components.

So, that's another vertical that we wish to move forward. And the fourth one would be skids and modules. As you know, we've mentioned that we want to get into the package mode. Currently, we are doing only the components or the products. We wish to get into making the entire package.

Of course, we are doing two skids at this point in time, but we would like to make it at a mass scale, maybe 3 years to 4 years down the line and make more modules than equipments. That would be the plan for organic growth.

Sameer Thakur: Okay. Thank you. So, any inorganic plan also you have, any acquisitions you are planning to have to diversify into different geographies, etcetera or not yet?

Management: Yeah, we do. We wish to get into manufacturing in the other zones. Maybe Middle East is one that we are looking at. Not that something has been formed up as of now, but we surely are exploring and also capability acquisitions in terms of technology. That's something that we are working on. And maybe something that transpires, we will surely come back and provide the information.

But this is something that we are looking at going forward in terms of acquisition. So, as I mentioned earlier, I know now next 2 years to 3 years, the agenda would be the acquisitions would happen only for capability built up and not more so from capacity perspective.

Sameer Thakur: Okay. Thank you. And any size you have in mind that would be bolt-on acquisitions or any bigger acquisitions you are planning?

Management: Yeah. So, we would like to have something in close to our core rather than moving out completely away from the core. And also from the newest technology, like for example, if there is something which is coming up in AI data center cooling system, which is very close by heat exchangers, we would definitely like to move forward with that. So, we are exploring currently on the acquisition side for technology. So, I believe I would say that we are in the exploration mode for inorganic at this point in time.

Sameer Thakur: Okay. Thank you. Just I'm not sure whether it's a repeat, but I mean, the guidance for this year, I think you had mentioned 5% to 10% growth and around 15% EBITDA margin. So, that is in fact, I just wanted to check on that.

Management: Yes. So, the guidance that we have provided is a top line revenue of INR840 crores to INR860 crores with an EBITDA of INR120 to INR128, which is roughly about 14% to 15% range. If this is based on the products and the POs on hand, so as long as we are able to execute the numbers are intact.

Sameer Thakur: Okay. Thank you. Thanks. That was all. I'll get back into queue. Thank you.

Moderator: Thank you. The next question is from the line of Ravindra, an individual investor. Please go ahead.

Ravindra: Hello. Am I audible?

Management: Yes. Please go ahead.

Ravindra: Hello, sir. Thank you for the opportunity. So, I just have a couple of questions. One is you mentioned that the current capacity that we have can cater to 1,200 stores. So, does that include the technical services part also or that is in addition to this?

Management: So, the technical services as of now utilizes the resources from our existing capacity. So, as of now, it is part of the INR1,200 crores.

Ravindra: Okay. Thank you. So, thanks for the detailed explanation on the raw material cost and how it impacted. So, I just wanted to understand from a medium term perspective also. I know the geopolitical situation is still not completely resolved and we may again get into such a raw material price hike in the future also.

So, is there a plan that we can mitigate this so that we do not get into a situation like what we had in Q1? That there is an increased raw material cost all of a sudden and we are in the middle of a procurement cycle.

Management: So, just to clarify the major profitability impact in Q1 was because of the shortfall in revenue and as explained earlier because of the lower absorption of the fixed cost. Nevertheless, there was an impact of raw material. If you see the raw material was elevated at about 6%.

Going forward, of course, what we do is the current order book that we take in, we build in the current elevated raw material prices in our estimation and what we understand today based on the current situation, this probably is a situation which is the worst. It cannot get too worse than this. It may only improve going forward.

So, this is the way we look at it currently and in terms of mitigating this going forward, what we are trying to do is keep the supply chain as close to us as possible. Even if it means that we pay a little more and get the supply chain in India, we are trying to do that. So, that is the cards that we are playing at this point in time.

But of course, for some items where the sourcing in India is not possible, we have no choice but to get it from the other parts of the world, maybe in China and Europe, but we are keeping a very close watch on how the commodities move.

Ravindra: Okay.

Management: Reggie and team have been sort of jetting around the world to develop new vendors. So, a lot of focus on vendor development, a lot of focus on qualifying newer companies to service our needs and a lot more agile organization to ensure that ordering, etcetera, happens as efficiently as possible.

But even if you do everything well, if there are these forced major type of movements, then I do not think any business can fully insulate against all of these things. But whatever effort is needed to try and de-risk ourselves, I am quite satisfied that the team is putting it in.

Ravindra: Absolutely, sir. Thank you. Thank you for all the efforts that you are putting in. I just had one follow-up. Just in case there is a dip in the raw material price, does that impact us positively?

Management: Yes. So, if there is a dip in raw material from where it is today, and if we are building that in our product order book position today, it will surely help us.

Management: Okay. But what we try and do is we try and close the raw material as soon as possible. So, if we have closed the raw material, then the prices get locked in, and then only the freight movement, etcetera, can actually affect it. So, only when you have very fast increase or very fast decrease is there scope of that within the 2, 3 weeks it takes to do the ordering.

In that window, you know, if there are big movements, only then they can either hurt or help you. Unfortunately, that happened when the war broke out. It is a very rare thing, actually. So, it is not something that, as business as usual, it impacts you.

Sameer Thakur: Okay. Thank you. Thanks. Thank you again and the team.

Moderator: Ladies and gentlemen, that was the last question for the day. I will now hand the conference over to Mr. Reginaldo D'Souza for closing comments. Over to you, sir.

Management: Yes. So, thank you all for your interest and very interesting questions, and I hope we were able to clarify. In case if you have any further queries, please feel free to contact us, and we would be happy to respond. I take this opportunity to thank my team at Anup for being resilient in these difficult times.

I am sure the effort would yield results soon. Thank you all to our stakeholders and well-wishers for your trust and support as always. I wish you all a very happy Diwali. Take care. Stay safe. Thank you.

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