The Anup Engineering (THEANU)

ICICI direct Research

CMP: | 2114 | Target: | 2590 (+23%) | Target Period: 12 months | BUY

August 1, 2023

Well placed to benefit from buoyant capex scenario…

About the stock: The Anup Engineering (TAEL) is one of the leading manufacturers of process equipments like heat exchangers, vessels, reactors, columns etc

- The company has a facility in Odhav, Gujarat and is currently in the process of undertaking a greenfield expansion in Kheda
- Consolidated revenue grew 18.8% CAGR during FY20-23 while EBITDA and PAT have grown by 6.4% and 6.2% CAGR respectively over the same period. In FY23, revenue and PAT stood at | 411.3 crore and | 51.4 crore respectively. The company aims to achieve a topline of ~| 1000 crore by FY27, implies CAGR of ~25%

Key Investment Thesis:

- **Well positioned with strong capabilities; focus on expanding capacity, growing product range & increasing exports share**: The company caters to wide range of process industries with its extensive product range of Heat Exchangers, Reactors, Pressure Vessels, Columns & Towers etc. With its manufacturing facility at Odhav, the company has been able to maintain its dominant position in heat exchangers (74% of FY23 revenues). Moreover, the new facility at Kheda (to be fully commissioned in Q2FY24) provides an opportunity to enhance its core product portfolio. Also, company is focused on increasing its exports share from ~19% in FY23 to 30% by FY24 end
- **Strong order pipeline led by buoyant capex cycle**: Company's order backlog stood at | 651 crore as of June 2023 end (67% from heat exchangers, 17% from tower & reactors, 12% from vessels). Domestic and exports orders contribute ~51% and ~49% of the total respectively. We believe that strong capex cycle across the capital goods segments presents substantial opportunities for the company's products. Moreover, India's emergence as one of the best choices in manufacturing capital goods equipments provides a sizable opportunity to company to increase its exports orderbook. Company expects total orders inflows worth | 600-650 crore in FY24E, provides healthy revenue growth visibility

Rating and Target Price

- Anup Engineering is strongly positioned to benefit substantially from buoyant industrials capex scenario. With focus on expanding product portfolio and exports, we believe company's operational and financial performance would improve considerably in the coming period. We estimate revenue and PAT to grow at ~26% and ~41% CAGR over FY23-25E. Balance sheet remains strong with healthy return ratios
- We maintain our **BUY** rating on The Anup Engineering. We value the stock at | 2590 per share (based on 25x FY25 EPS)

Anup ENGINEERING

Particulars

Particular	Amount
Market Capitalization (₹ crore)	2,092
Total Debt (FY23) (₹ crore)	34
Cash and Inv (FY23) (₹ crore)	33
EV (FY23) (₹ crore)	2,036
52 week H/L (₹) (BSE)	2180 / 798
Equity capital (₹ crore)	9.9
Face value (₹)	10.0

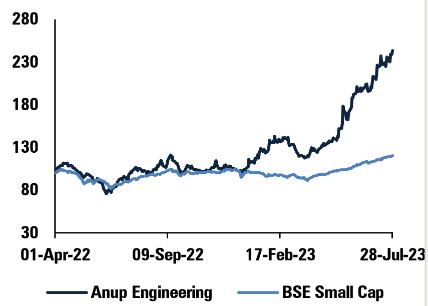
Shareholding Pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	43.0	43.0	43.0	42.9
FII	1.8	1.8	2.5	2.4
DII	10.7	10.4	10.4	11.5
Others	44.5	44.9	44.1	43.2

Risks to our call

1) Slowdown in domestic and global capex
2) Shortage of skilled labour
3) Increase in commodity prices

Price Performance



Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Conviction Idea

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	2 year CAGR (FY21-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	279.1	288.2	411.3	21.4	525.3	651.3	25.8
EBITDA	68.8	70.0	82.7	9.7	117.4	159.6	38.9
EBITDA margin (%)	24.6	24.3	20.1		22.4	24.5	
PBT	61.7	62.7	70.0		99.5	138.6	
Net Profit	53.5	62.1	51.4	(2.0)	73.6	102.6	41.2
EPS (₹)	54.4	62.8	52.0		74.4	103.6	
P/E (x)	38.8	33.7	40.7		28.4	20.4	
EV/EBITDA (x)	29.9	29.1	25.3		17.9	13.1	
RoCE (%)	17.7	15.3	14.7		18.8	22.7	
RoE (%)	15.9	15.8	11.8		15.0	18.0	

Source: Company, ICICI Direct Research

Company Background

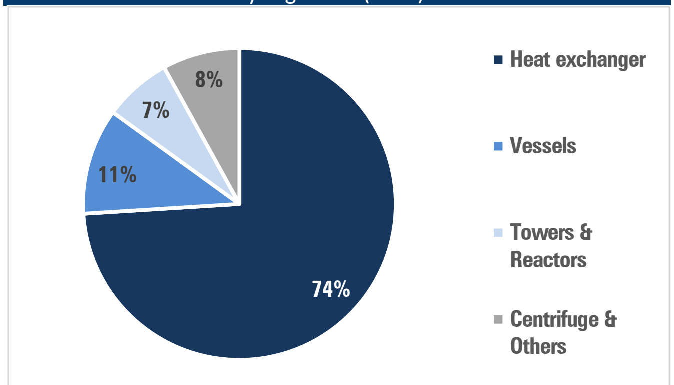
The Anup Engineering Limited (TAEL), incorporated in 1962, is engaged in manufacturing and fabrication of process equipments (like Heat Exchangers, Reactors, Pressure Vessels, Columns & Towers, Industrial Centrifuges & Formed Components) required for Chemicals, Petrochemicals, Pharmaceuticals, Fertilizers, Drugs and other allied industries

The Company has one manufacturing unit at Odhav (Gujarat) and in process of setting up a new facility at Kheda (Gujarat)

As of FY23, heat exchangers is the largest revenue contributor (~74% of revenues) followed by vessels (~11% of sales), towers & reactors (7% of sales). The balance ~8% is contributed by centrifuge and others. In terms of geographical mix, ~81% of revenue is from domestic markets while ~19% is from exports

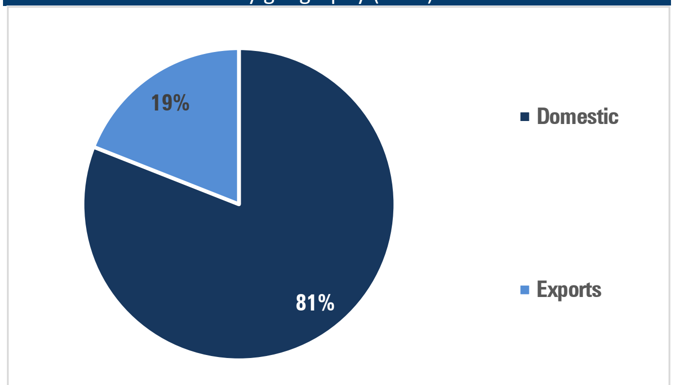
Consolidated revenue of the company has grown by 18.8% CAGR in the last 3 years during the period FY20-23 while EBITDA and PAT have grown by 6.4% and 6.2% CAGR respectively over the same period. During FY23, company reported revenues of | 411.3 crore which increased by 42.7% YoY while EBITDA grew by 18.2% YoY to | 246.7 crore

Exhibit 1: Revenue mix by segments (FY23)



Source: Company, ICICI Direct Research

Exhibit 2: Revenue mix by geography (FY23)



Source: Company, ICICI Direct Research

Exhibit 3: Product portfolio

Source: Company, ICICI Direct Research

Investment Rationale

Well positioned with strong capabilities; focus on expanding capacity, growing product range & increasing exports share

The company caters to wide range of process industries including Oil & Gas refinery, Petrochemicals, Liquefied natural gas (LNG), Fertilizers, Hydrogen, Chemicals, Power, Water, Paper & Pulp and Aerospace with its extensive product range of Heat Exchangers, Reactors, Pressure Vessels, Columns & Towers, Industrial Centrifuges & Formed Components

With its manufacturing facility at Odhav (Gujarat), the company has been able to maintain its dominant position in the shell & tube heat exchangers (which forms 74% of revenues in FY23). In terms of products portfolio, company has been focussed on expanding product range or product enhancements in its core products like heat exchangers or reactors. Moreover, the company is in process of setting up a new facility at Kheda, which provides the company an opportunity to address larger sized equipments like reactors, vessels, columns etc. The new Kheda facility is expected to be fully commissioned in Q2FY24 and expected to contribute to revenues from H2FY24 onwards

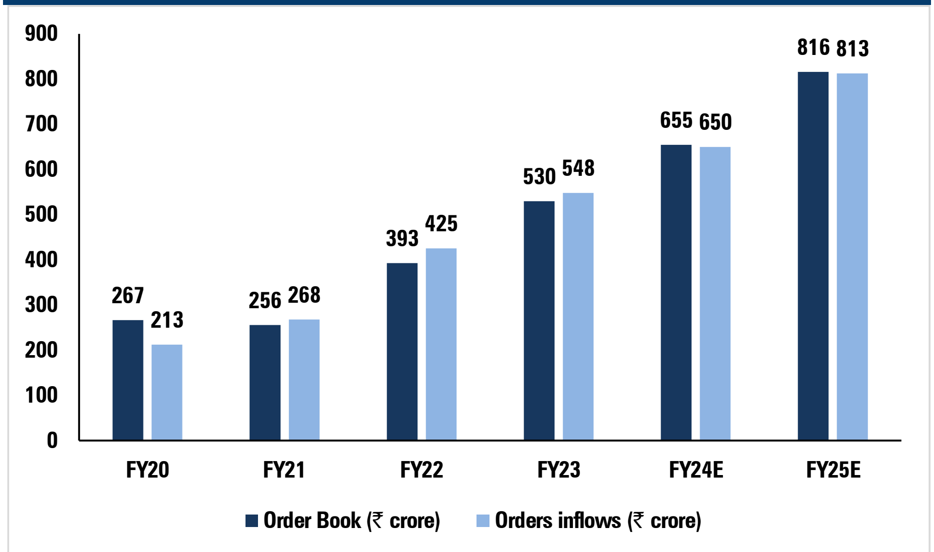
The company, which supplies its products to 31 Countries across 5 continents, has also been focused on increasing its exports share from ~19% in FY23 to 30% by FY24 end and gradually to ~40% in coming years

Strong order pipeline led by buoyant capex cycle

The Company's order backlog stood at | 651.3 crore as of June 2023 end as against FY23 closing order book of | 530 crore. Out of total order backlog of | 651 crore, heat exchangers contribute ~67% of total followed by ~17% from tower & reactors, ~12% from vessels and balance from centrifuge & job work. In terms of geographic break-up, domestic orders contribute ~51% of total and ~49% from exports. In terms of order inflows, the company received orders worth ~| 245 crore in Q1FY24, of which ~70% are export orders.

We believe that strong capex cycle across the capital goods segments presents substantial opportunities for the company's products. Moreover, India's emergence as one of the best choices in manufacturing capital goods equipments provides a sizable opportunity to company to increase its exports orderbook. Company expect new orders worth | 600-650 crore in FY24E (including Q1FY24 inflow) which provides healthy revenue growth visibility going ahead

Exhibit 4: Order book and order inflows trend

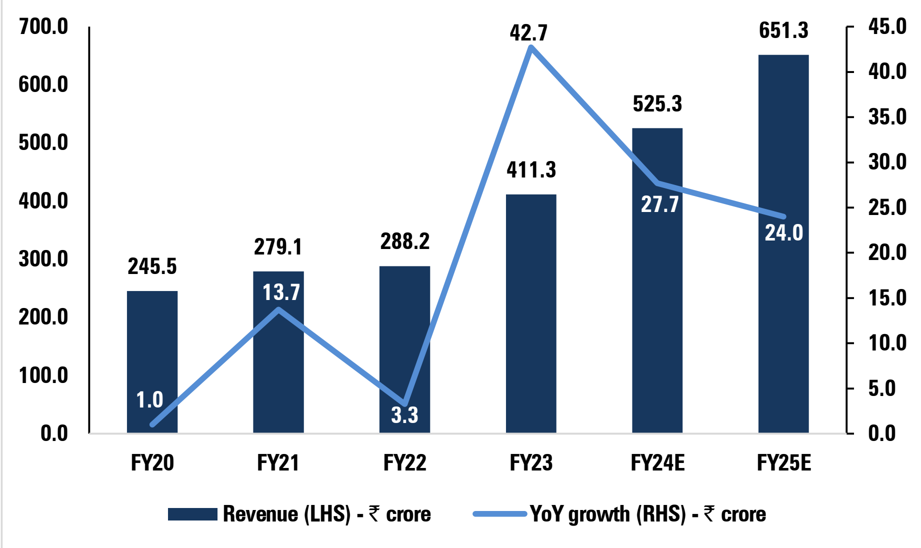


Source: Company, ICICI Direct Research

Revenue growth expected at ~26% CAGR over FY23-25E

TAEL's consolidated revenue grew at 18.8% CAGR over the last 3 years (FY20-23). However, over the next two years, revenue growth is expected to be stronger at 25.8% CAGR over FY23-25E led by strong demand scenario, execution of strong order backlog and healthy inflows during the period. Also, the ramping up of new capacity at Kheda would add to the revenues over H2FY24E and FY25E

Exhibit 5: Healthy revenue growth ahead



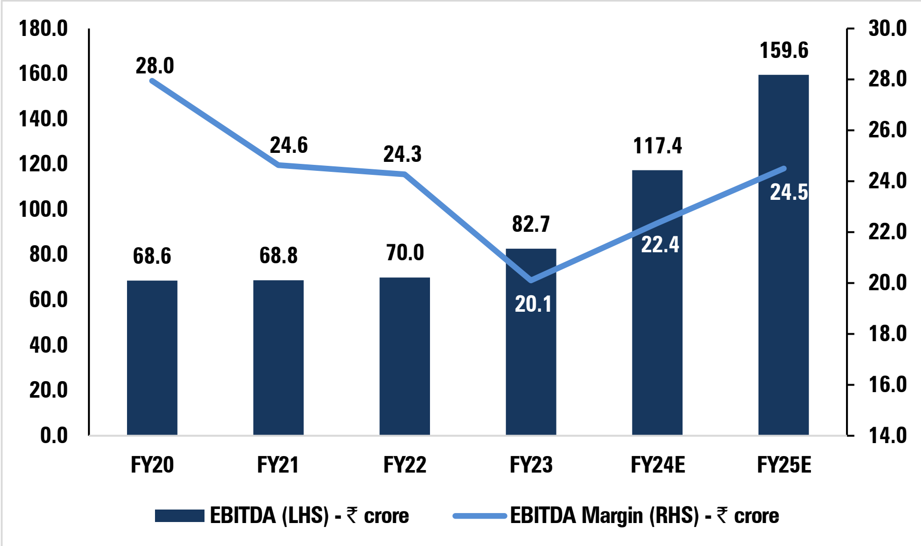
Source: Company, ICICI Direct Research

EBITDA margins expected to improve over FY23-25E; EBITDA expected at ~39% CAGR

Company's EBITDA margin contracted to 20.1% in FY23 from 28% in FY20, which led to EBITDA CAGR at just 6.4% during FY20-23 to | 82.7 crore in FY23. Going ahead, we expect EBITDA margin to improve to 22.4% in FY24E and 24.5% in FY25E, mainly led by benign commodity prices, improving product mix with increasing share of margin-accretive exports share in revenues and positive operating leverage

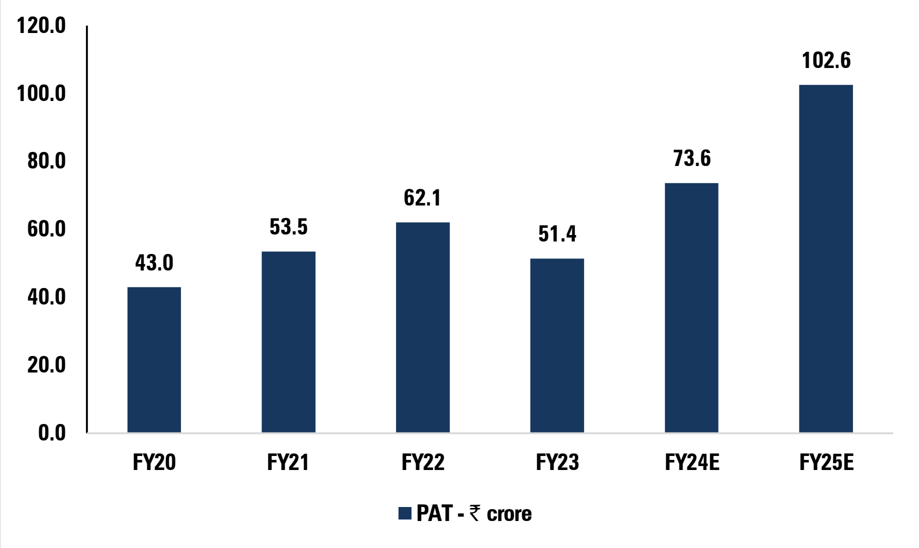
Thus, on account of increase in revenues and margins, EBITDA is expected to grow at ~39% CAGR over FY23-25E

Exhibit 6: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT expected to grow at ~41% CAGR over FY23-25E

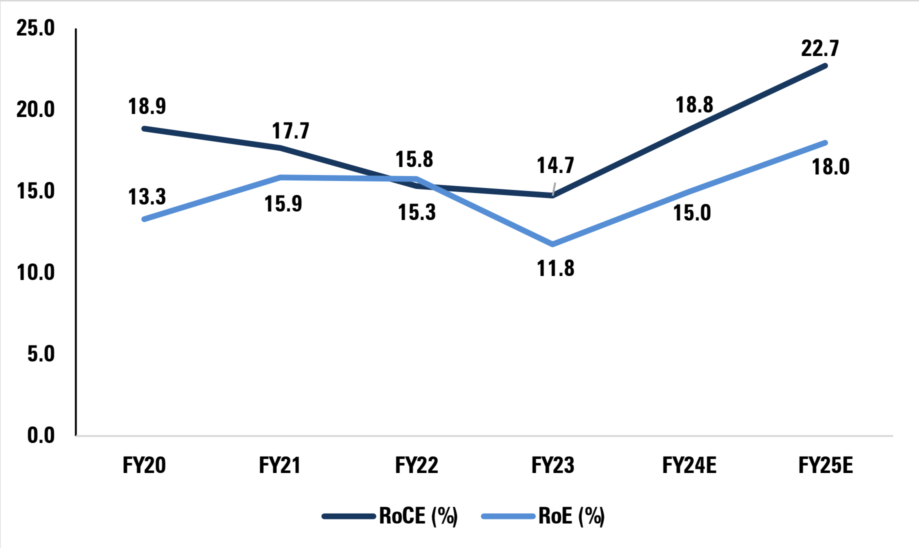


Source: Company, ICICI Direct Research

Healthy return ratios

Going forward, on account of increase in margins & profitability and asset turnover ratio, return ratios are set to improve over the period FY23-25E. RoCE (Return on Capital Employed) is expected to improve to 22.7% by FY25E from 14.7% in FY23 while Return on Equity (RoE) to improve to 18% in FY25E from 11.8% in FY23

Exhibit 8: Return ratios



Source: Company, ICICI Direct Research

Key risk and concerns

Slow-down in capex cycle

TAEL’s revenue and profitability growth is primarily dependent on the demand of heat exchangers, vessels, reactors, columns etc in domestic and export markets, which are dependent on public and industrial capex. Any slow-down in the capex cycle in end user segments (like Oil & Gas refinery, Petrochemicals, Liquefied natural gas (LNG), Fertilizers, Hydrogen, Chemicals, Power, Water, Paper & Pulp and Aerospace) may hurt the demand for the company’s products and thus revenues and profitability

Shortage of skilled labour

TAEL, being into a customized business where every product is designed and made to order, labour skills play an important role especially skilled Fitters & Welders. The availability of skilled workforce is always a challenge. Any shortage of skilled labour may impact company’s sales, margins, profitability and cash flows

Prolonged global slowdown

Company’s ~19% of revenue (FY23) comes from exports (mainly from United States and Middle-East). Moreover, the exports share is expected to increase to 30-40% in the coming years. Any prolonged slowdown in demand from these countries would impact exports may impact export sales and thus profitability and cash flows

Increase in raw material prices

Steel is the primary raw materials for the company in manufacturing heat exchangers, vessels, reactors and columns. Any increase in prices of these commodities may impact margins and profitability

Financial summary

Exhibit 9: Profit and loss statement | crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	288	411	525	651
Total Operating Income	288	411	525	651
% Growth (Operating Income)	*3.3*	*42.7*	*27.7*	*24.0*
Other Income	3.8	1.2	2	2
Total Revenue	**292.0**	**412.6**	**527.3**	**653.3**
Cost of materials consumed	140	222	263	319
Employee cost	20	21	27	29
Other Expenses	58	86	119	143
Total expenditure	218	329	408	492
EBITDA	**70.0**	**82.7**	**117.4**	**159.6**
% Growth (EBITDA)	*1.8*	*18.2*	*42.0*	*35.9*
Interest	1.0	1.4	1.5	1.5
PBDT	73	83	118	160
Depreciation	12	13	18	21
PBT	61	70	100	139
Tax	(1)	19	26	36
PAT	**62.1**	**51.4**	**73.6**	**102.6**
% Growth (PAT)	*15.9*	*(17.1)*	*43.2*	*39.3*
EPS	62.8	52.0	74.4	103.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement | crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	62	51	74	103
Depreciation	12	13	18	21
Interest	1	1	2	2
Other income	(4)	(1)	(2)	(2)
Prov for Taxation	(1)	19	26	36
Change in Working Capital	4	(34)	(28)	(39)
Taxes Paid	0	(18)	(26)	(36)
Cash from Opeations	**74**	**30**	**63**	**85**
(Purchase)/Sale of Fixed Assets	(32)	(83)	(50)	(50)
(Purchase)/Sale of Investments	(9)	6	-	-
Other Income	4	1	2	2
Cash from Investing	**(38)**	**(76)**	**(48)**	**(48)**
Changes in Networth	2	8	-	(0)
Interest	(1)	(1)	(2)	(2)
Dividend paid	(8)	(15)	(20)	(24)
Cash from Fin	**(7)**	**(9)**	**(21)**	**(25)**
Changes in Cash	29	(20)	(6)	12
Opening Cash/Cash Equivalent	24	53	33	27
Closing Cash/ Cash Equivalent	53	33	27	38

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet | crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Share Capital	9.9	9.9	9.9	9.9
Reserves & Surplus	384	428	482	560
Total Shareholders fund	**393**	**438**	**492**	**570**
Total debt	-	34.3	34.3	34.3
Other liabilities	12.0	12.1	12.1	12.1
Total Liabilities	**405**	**484**	**538**	**617**
Gross Block	222	253	370	420
Acc: Depreciation	39	52	70	92
Net Block	183	201	299	328
Capital WIP	31	87	20	20
Investments	11	4	4	4
Inventory	90	127	173	214
Sundry debtors	125	149	190	235
Cash	**53**	**33**	**27**	**38**
Inv+Other current assets	13	26	26	26
CL& Prov.	120	159	218	266
Net Current Assets	161	175	198	248
Total Assets	**405**	**484**	**538**	**617**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per Share Data				
EPS	62.8	52.0	74.4	103.6
Cash EPS	74.5	64.6	93.0	125.3
BV	398.1	442.3	496.7	576.3
DPS	8.0	15.0	20.0	24.0
Cash Per Share	39.9	52.5	71.1	92.8
Operating Ratios (%)				
EBITDA Margin	24.3	20.1	22.4	24.5
PBT / Net Sales	20.3	17.1	18.9	21.2
PAT Margin	21.5	12.5	14.0	15.7
Inventory days	114.2	112.6	120.0	120.0
Debtor days	158.0	131.8	131.8	131.8
Creditor days	151.9	140.9	151.2	149.0
Return Ratios (%)				
RoE	15.8	11.8	15.0	18.0
RoCE	15.3	14.7	18.8	22.7
RoIC	21.0	22.1	22.3	27.0
Valuation Ratios(x)				
P/E	33.7	40.7	28.4	20.4
EV / EBITDA	29.1	25.3	17.9	13.1
EV / Net Sales	7.1	5.1	4.0	3.2
Market Cap / Sales	7.2	5.1	4.0	3.2
Price to Book Value	5.3	4.8	4.3	3.7
Solvency Ratios				
Net Debt / Equity	-	0	0	-
Current Ratio	1.8	1.7	1.7	1.7
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,

ICICI Securities Limited,

Third Floor, Brillanto House,

Road No 13, MIDC,

Andheri (East)

Mumbai – 400 093

research@icicidirect.com

ANALYST CERTIFICATION

I/We, Chirag Shah, PGDBM, Vijay Goel, PGDBM Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.
ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.