

CMP: ₹ 2696

Target: ₹ 3350 (24%)

Target Period: 12 months

BUY

February 14, 2024

Well placed to benefit from buoyant capex scenario...

About the stock: The Anup Engineering (TAEI) is one of the leading manufacturers of process equipments like heat exchangers, vessels, reactors, columns etc. Company supply these equipments to sectors like oil & gas, petrochemicals, chemicals, fertiliser, power, aerospace and other process Industries in India and worldwide

- The company has two manufacturing facilities in Gujarat (Odhav and Kheda). As of 9MFY24, heat exchangers contribute ~68% to total revenues while balance ~32% from vessels, reactors, towers etc. In terms of geographical break-up, domestic contribute ~73% to total revenue (as of 9MFY24) while balance ~27% from exports & SEZ

Q3FY24/9MFY24 performance: Revenue increased by 12.2% YoY (-8.2% QoQ) to ₹ 128.4 crore. EBITDA margin improved by 361 bps YoY (+97 bps QoQ) to 23.4%. Thus, EBITDA increased by 32.7% YoY (-4.2% QoQ) to ₹ 30.0 crore. PAT was up by 45.3% YoY (-7.1% QoQ) to ₹ 20.2 crore. For 9MFY24, revenue is up 47% YoY with EBITDA margin at 22.7% (vs 19.7% in 9MFY23) and PAT at +89% YoY 9.0% YoY (+19.3% QoQ) to ₹ 88.2 crore. Order inflows during 9MFY24 remains healthy at ₹ 676 crore with backlog at ₹ 814 crore as of Dec 2023 end

Investment Rationale:

- Well positioned with strong capabilities; focus on expanding capacity, growing product range & increasing exports:** With state-of-the-art manufacturing facilities at Odhav and now expansion at Kheda, the company has been able to strengthen its capabilities in terms of increasing addressability of product portfolio (heat exchangers, vessels, reactors, and columns) to a more wider range of process industries in domestic and export markets. Company is also focused on expanding its geographical base through increasing its exports share (currently at 27% in 9MFY24)
- Poised for a strong growth ahead led by buoyant capex cycle:** Company's order backlog stood at ₹ 814 crore as of Dec 2023 end (64% from heat exchangers and balance from vessels, reactors etc). Exports contribute substantial 52% of the order backlog as major export orders received during 9MFY24 (from US, Middle East). Exports share stands at 57% in 9MFY24 order inflows of ₹ 662 crore. Enquiry pipeline remains strong for company's products (heat exchangers, reactors & vessels) in both domestic and export markets, led by buoyant capex scenario in sectors like oil & gas, petrochemicals, hydrogen, fertilizers etc.

Rating and Target Price

- Management's guidance remains intact at ~30% revenue growth for FY24E & 25-30% for FY25E led by execution pick-up, capacity expansion and strong order pipeline. We estimate revenue, EBITDA and PAT to grow at ~27%, ~34% and ~37% CAGR respectively over FY23-26E
- Balance sheet to strengthen further with improvement in return ratios. We value Anup Engineering at ₹ 3350 i.e. 25x FY26E P/E



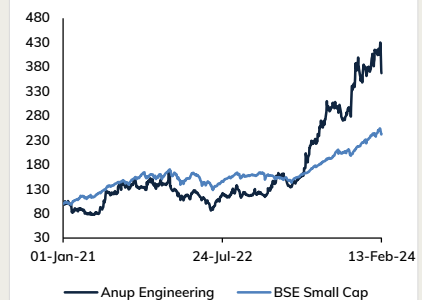
Particulars

Particular	Amount
Market Capitalization (Rs crore)	2,659
Total Debt (FY23) (Rs crore)	34
Cash and Inv (FY23) (Rs crore)	33
EV (FY23) (Rs crore)	2,602
52 week H/L	3176 / 950
Equity capital (Rs crore)	9.9
Face value (Rs)	10

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	43.0	42.9	42.9	42.9
FII	2.5	2.4	1.1	0.8
DII	10.4	11.5	11.4	44.1
Others	44.1	43.2	44.5	12.3

Price Chart



Key risks

- slowdown in domestic & global capex
- increase in commodity prices
- shortage of skilled labour

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Key Financial Summary

(Rs Crore)	FY21	FY22	FY23	2 year CAGR (FY21-23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-26E)
Net Sales	279.1	288.2	411.3	21.4	538.9	679.0	848.7	27.3
EBITDA	68.8	70.0	82.7	9.7	124.5	159.6	199.4	34.1
EBITDA margin (%)	24.6	24.3	20.1		23.1	23.5	23.5	
PBT	61.7	62.7	70.0		112.5	143.8	179.2	
Net Profit	53.5	62.1	51.4	(2.0)	84.7	106.4	132.6	37.1
EPS (Rs)	54.4	62.8	52.0		85.6	107.5	134.0	
P/E (x)	49.5	42.9	51.9		31.5	25.1	20.1	
EV/EBITDA (x)	38.2	37.3	32.3		21.5	16.8	13.3	
RoCE (%)	17.7	15.3	14.7		20.9	23.1	24.5	
RoE (%)	15.9	15.8	11.8		16.9	18.2	19.1	

Source: Company, ICICI Direct Research

Earnings Call Highlights

- Revenue growth guidance remains intact at 30% for FY24E & 25-30% for FY25E. In the longer term, company targets to maintain revenue growth of 25-30% with EBITDA margin at 20%+
- Q3FY24 revenue break-up: 51% from heat exchanger, 20% from vessels, 10% from towers & reactors, 15% from pipes and 4% from others
- Domestic contributed 75% to revenues in Q3FY24 while 25% from exports
- Order inflows during 9MFY24 remains healthy at ₹ 662 crore, of which 57% is from exports led by key orders received from countries like US, Middle East in sectors like Hydrogen, Gas etc
- Order backlog as of Dec-23 stands at ₹ 813.5 crore, of which 64% is from heat exchangers and balance 36% from vessels, reactors, columns etc. In terms of geographical break-up, 30% of order backlog is from domestic markets, 52% is from exports and balance 18% from SEZ
- Enquiry pipeline remains strong at ~₹ 900 crore for company's products in both domestic and export markets
- Company expect orders worth ₹ 100-150 crore in Q4FY24
- New capacity expansion at Kheda is ramping up well. Company has preponed the capex of ₹ 15 crore for extension of PS Bay at Kheda, which will be commissioned in Q1FY25. This will provide 2 complete bays for manufacturing at Kheda
- Orders worth ~₹ 150 crore have already been booked for the new Kheda facility
- Exports share for FY24E is expected at 30% (vs 19% in FY23). For FY25, the exports share is expected to increase further to 40-42%
- Working capital cycle improved to 4.3x turns led by better collections and higher advances (on higher export orders). Management expects working capital cycle to moderate to 3.3-3.5x in the long run

Financial summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	288	411	539	679	849
Total Operating Income	288	411	539	679	849
% Growth (Operating Income)	3.3	42.7	31.0	26.0	25.0
Other Income	3.8	1.2	7	8	9
Total Revenue	292.0	412.6	546.2	687.0	857.7
Cost of materials consumed	140	222	286	333	416
Employee cost	20	21	29	34	41
Other Expenses	58	86	100	153	193
Total expenditure	218	329	414	519	649
EBITDA	70.0	82.7	124.5	159.6	199.4
% Growth (EBITDA)	1.8	18.2	50.5	28.2	24.9
Interest	1.0	1.4	2.3	2.0	2.0
PBDT	73	83	129	166	206
Depreciation	12	13	17	22	27
PBT	61	70	113	144	179
Tax	(1)	19	28	37	47
PAT	62.1	51.4	84.7	106.4	132.6
% Growth (PAT)	15.9	(17.1)	64.7	25.6	24.6
EPS	62.8	52.0	85.6	107.5	134.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Profit after Tax	62	51	85	106	133
Depreciation	12	13	17	22	27
Interest	1	1	2	2	2
Other income	(4)	(1)	(7)	(8)	(9)
Prov for Taxation	(1)	19	28	37	47
Change in Working Capital	4	(34)	(32)	(43)	(52)
Taxes Paid	0	(18)	(28)	(37)	(47)
Cash from Operations	74	30	64	79	101
(Purchase)/Sale of Fixed Assets	(32)	(83)	(60)	(60)	(50)
(Purchase)/Sale of Investments	(9)	6	-	-	-
Other Income	4	1	7	8	9
Cash from Investing	(38)	(76)	(53)	(52)	(41)
Changes in Network	2	8	-	-	(0)
Interest	(1)	(1)	(2)	(2)	(2)
Dividend paid	(8)	(15)	(20)	(24)	(24)
Cash from Fin	(7)	(9)	(22)	(26)	(26)
Changes in Cash	29	(20)	(10)	1	34
Opening Cash/Cash Equivalent	24	53	33	22	24
Closing Cash/ Cash Equivalent	53	33	22	24	58

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	9.9	9.9	9.9	9.9	9.9
Reserves & Surplus	384	428	493	575	684
Total Shareholders fund	393	438	503	585	694
Total debt	-	34.3	34.3	34.3	34.3
Other liabilities	12.0	12.1	12.1	12.1	12.1
Total Liabilities	405	484	549	632	741
Gross Block	222	253	380	440	490
Acc. Depreciation	39	52	69	91	118
Net Block	183	201	311	349	372
Capital WIP	31	87	20	20	20
Investments	11	4	4	4	4
Inventory	90	127	177	223	279
Sundry debtors	125	149	195	245	307
Cash	53	33	22	24	58
Inv+Other current assets	13	26	26	26	26
CL& Prov.	120	159	223	277	342
Net Current Assets	161	175	197	242	328
Total Assets	405	484	549	632	741

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	62.8	52.0	85.6	107.5	134.0
Cash EPS	74.5	64.6	102.8	129.5	161.4
BV	398.1	442.3	507.9	591.4	701.4
DPS	8.0	15.0	20.0	24.0	24.0
Cash Per Share	39.9	52.5	69.7	91.6	119.1
Operating Ratios (%)					
EBITDA Margin	24.3	20.1	23.1	23.5	23.5
PBT / Net Sales	20.3	17.1	20.0	20.3	20.3
PAT Margin	21.5	12.5	15.7	15.7	15.6
Inventory days	114.2	112.6	120.0	120.0	120.0
Debtor days	158.0	131.8	131.8	131.8	131.8
Creditor days	151.9	140.9	150.9	148.7	146.9
Return Ratios (%)					
RoE	15.8	11.8	16.9	18.2	19.1
RoCE	15.3	14.7	20.9	23.1	24.5
RoIC	21.0	22.1	23.4	25.5	28.0
Valuation Ratios(x)					
P/E	42.9	51.9	31.5	25.1	20.1
EV / EBITDA	37.3	32.3	21.5	16.8	13.3
EV / Net Sales	9.1	6.5	5.0	3.9	3.1
Market Cap / Sales	9.2	6.5	5.0	3.9	3.1
Price to Book Value	6.8	6.1	5.3	4.6	3.8
Solvency Ratios					
Net Debt / Equity	-	0	0	0	-
Current Ratio	1.8	1.7	1.7	1.7	1.7
Quick Ratio	1.0	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Sell: <-15%



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