

The Anup Engineering (THEANU)

CMP: ₹ 820

Target: ₹ 970 (18%)

Target Period: 12 months

BUY

August 10, 2022

Weak execution amid record order booking...

About the stock: Anup Engineering is one of the leading process equipment manufacturers with special focus on heat exchangers.

- The company has a facility in Odhav, Gujarat and is currently in the process of doing a greenfield expansion in Kheda
- The company aims to achieve a topline target of ₹ 1000 crore by 2026

Q1FY23 Results: Anup reported weak Q1FY23 results.

- Revenue for the quarter was at ₹ 58.1 crore, down 48.2% QoQ, 0.4% YoY
- EBIDTA margins contracted ~580 bps YoY & ~560 bps QoQ, at 18.2%. Absolute EBIDTA came in at ₹ 9.4 crore, down 60.4% QoQ
- Ensuing PAT came in at ₹ 5.2 crore, down 84.1% QoQ and 34.7% YoY

What should investors do? Anup Engineering is on the cusp of entering into a new trajectory led by new products and strong growth in topline.

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value Anup at ₹ 970 i.e. 15x P/E on FY24E EPS.

Key triggers for future price performance:

- Upcoming clean room facility at Odhav expanding Anup's reach into exotic metallurgy
- Timely commercialisation of Kheda capex ensuring sustained growth
- Exploring opportunities in nuclear, space and defence segment

Alternate Stock Idea: Apart from Anup Engineering, in our capital goods coverage we also like NRB Bearings.

- It offers a play on needle roller bearings, which are largely used in auto applications
- BUY with a target price of ₹ 220 per share



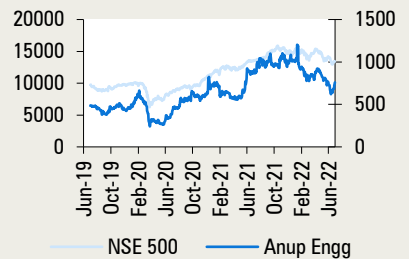
Particulars

Particular	Amount
Market Capitalization (₹ crore)	812
Total Debt (FY22) (₹ crore)	0
Cash and Inv (FY22) (₹ crore)	66
EV (FY22) (₹ crore)	746
52 week H/L (₹) (BSE)	1236 / 635
Equity capital (₹ crore)	9.8
Face value (₹)	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	43.1%	43.0%	43.0%	43.0%
FII	2.1%	2.1%	1.8%	1.8%
DII	12.1%	13.1%	13.2%	11.6%
Others	42.7%	41.7%	41.9%	43.5%

Price Chart



Recent event & key risks

- Completion of Odhav capacity
- Key Risk:** (i) Commodity inflation, (ii) Subdued Exports

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Yash Panwar
Yash.panwar@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY21	FY22	(FY19-22) Year CAGR	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	279.1	288.2	5.9	371.2	429.0	22.0
EBITDA	68.8	70.0	3.1	75.4	99.5	19.2
EBITDA margin (%)	24.7	24.3		20.3	23.2	
PBT	61.7	61.1	1.3	70.2	95.6	25.1
Net Profit	53.8	62.1	13.9	47.9	64.0	1.5
EPS (₹)	54.7	62.7		48.4	64.7	
P/E (x)	15.0	12.9		16.9	12.7	
EV/EBITDA (x)	11.4	10.5		9.9	8.1	
RoCE (%)	17.7	15.3		16.2	17.6	
RoE (%)	15.9	15.8		12.2	13.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Weak execution amid record order booking...

- Revenue for the quarter came in at ₹ 51.8 crore, down 0.4% YoY and 48.2% QoQ due to laggard performance in all segments
- The company posted gross margins of 49% vs. 45% in Q4FY22. The company registered an EBIDTA margin of 18.2% vs. 23.8% in Q4FY22 and 24% in Q1FY22. Absolute EBIDTA came in at ₹ 9.4 crore vs. ₹ 23.8 crore in the last quarter and ₹ 12.5 crore in the same quarter last year. Declining EBIDTA margins YoY are due to expensive raw material prices, negative operating leverage and muted exports
- Tracking its operating performance, Anup Engineering ended the quarter with a PAT of ₹ 5.2 crore vs. ₹ 32.4 crore in Q4FY22

Q1FY23 Earnings Conference Call highlights

- The company's Q1FY23 was impacted by selected revenue mix. Delivery of the products will start in subsequent quarters, which will increase the run rate of the company. The company has maintained its revenue guidance of ₹ 380-400 for FY23E with revenue to grow at a CAGR of 25-30% for the coming three to four years
- The pressure on EBITDA margins in Q1FY23 is mainly due to a sharp increase in raw material prices. Margins are expected to be in the range of 20-21%. From FY24E, they are expected to be back at normal levels of 24-25%
- The company is looking to release more advance version of current product (specially heat exchangers) offerings that will attract new customers and expand the product portfolio
- Diversification is high on the agenda with the company looking to enter the nuclear, space and defence segments with the help of the Odhav and Kheda plant. The company will also focus on global markets
- For better synergy, fungibility and to optimally utilise the capacity of Odhav and Kheda plant, the company will be operating Kheda as a plant for the existing company rather than subsidiary of the company
- The current order book is at ₹ 537 crore with order booking during Q1FY23 at ~₹ 190 crore. Current order book is very diversified, with strong order book pipeline in refining, petrochemical and paper segment. The company also added new customers from South America, Europe & Middle East. Order bifurcation 90% domestic and 10% exports. Around 45% of order book is at historical margin levels
- The company booked largest order of ₹ 102.9 crore for heat exchangers from public sector refinery and further booked order of ₹ 69 crore in Q2FY23 till date. More orders are expected in coming quarters
- Capex for Odhav plant has been done and is all set to be operational in Q2FY23. Capex for Kheda plant will be done in three phases and will cost around ₹ 275 crore. It will be done in three to four years. Capex for Q1FY23 was ₹ 25 crore and for FY23E is expected to be in the range of ₹ 85 crore

Exhibit 1: Variance Analysis

Year	Q1FY23	Q4FY22	Q1FY22	YoY (%)	QoQ(%)	Comments
Income from Operation	51.8	100.0	52.0	-0.4	-48.2	Weak execution due to laggard contribution from all segments
Cost of materials consumed	45.8	57.6	26.8	70.6	-20.4	
Purchase of stock-in-trade	0.0	0.0	0.0			
Changes in inventories	-19.6	-2.5	-1.5			
Employee cost	4.6	4.7	4.2	10.2	-2.1	
Other expenses	11.6	16.4	10.0	16.1	-29.7	
EBITDA	9.4	23.8	12.5	-24.6	-60.4	
EBITDA Margin (%)	18.2	23.8	24.0	-584 bps	-558 bps	Declining Margins due to higher Raw material prices, Negative Op. leverage and muted exports
Other Income	0.4	2.4	0.4	-6.8	-84.5	
Depreciation	2.9	2.9	2.9	1.4	0.8	
Interest	0.3	0.5	0.2	82.9	-34.4	
PBT	6.5	22.7	9.8	-33.5	-71.3	
Taxes	1.4	-9.6	1.9	-28.8	-114.3	
PAT	5.2	32.4	7.9	-34.7	-84.1	

Source: Company, ICICI Direct Research

Exhibit 2: Changes In Estimates

	Actual	Actual	FY23E	%		FY24E	%
₹ crore	FY21	FY22	Old	New	Change	Old	New
Revenue	279.1	288.2	381.5	371.2	(2.8)	463.0	429.0
EBITDA	68.8	70.0	81.3	75.4	(7.8)	110.1	99.5
EBITDA Margin (%)	24.7	24.3	21.3	20.3	-100 bps	23.8	23.2
PAT	53.8	62.1	52.0	47.9	(8.5)	94.6	95.6
EPS (₹)	54.7	62.7	52.5	48.4	(8.5)	71.5	64.0

Financial Summary

(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	279	288	371	429
Total Operating Income	279	288	371	429
% Growth (Operating Income)	13.7	3.2	28.8	-
Other Income	3.7	3.8	6.0	7
Total Revenue	282.9	292.0	377.2	436.0
Cost of materials consumed	140	163	224	245
Purchase of stock-in-trade	-	-	-	-
Change in inventories	8	(23)	(22)	(24)
Employee cost	17	20	26	27
Other Expenses	45	58	68	82
Total expenditure	210	218	296	329
EBITDA	68.8	70.0	75.4	99.5
% Growth (EBITDA)	0.3	1.7	7.6	32.1
Interest	0.3	1.0	1.0	2
PBDT	72	73	80	-
Depreciation	11	12	16	18
PBT	62	61	65	87
Tax	8	(1)	17	22
PAT	53.8	62.1	47.9	64.0
% Growth (PAT)	25.1	15.5	(22.8)	33.6
EPS	54.7	62.7	48.4	64.7

Source: Company, ICICI Direct Research

(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	9.8	9.9	9.9	9.9
Reserves & Surplus	328	384	424	481
Total Shareholders fund	337	393	434	491
Goodwill	-	-	-	-
Total debt	-	-	-	-
Other liabilities	12.6	12.0	12.0	12.0
Total Liabilities	350	405	446	503
Gross Block	161	253	338	398
Acc: Depreciation	28	39	55	73
Net Block	188	214	283	325
Capital WIP	2	15	15	16
Investments	1	1	1	1
Inventory	67	107	137	160
Sundry debtors	110	76	97	113
Cash	24	66	11	7
Loans & Advances	-	-	-	-
Inv+Other current assets	16	6	6	6
CL& Prov.	81	99	127	148
Net Current Assets	135	155	125	138
Total Assets	350	405	446	503

Source: Company, ICICI Direct Research

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	54	62	48	64
Depreciation	11	12	16	18
Interest	0	1	1	2
Other income	(4)	(4)	(6)	(7)
Prov for Taxation	8	(1)	17	22
Change in Working Capital	39	22	(24)	(17)
Taxes Paid	(10)	0	(17)	(22)
Cash from Operations	97	93	34	60
(Purchase)/Sale of Fixed Assets	(40)	(47)	(87)	(62)
(Purchase)/Sale of Investments	1	-	-	-
Other Income	4	4	6	7
Cash from Investing	(36)	(43)	(81)	(55)
Changes in Networth	(32)	2	(0)	(0)
Interest	(0)	(1)	(1)	(2)
Dividend paid	(7)	(8)	(7)	(7)
Cash from Fin	(40)	(7)	(8)	(9)
Changes in Cash	22	42	(54)	(4)
Opening Cash/Cash Equivalent	2	24	66	11
Closing Cash/ Cash Equivalent	24	66	11	7

Source: Company, ICICI Direct Research

(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	54.7	62.7	48.4	64.7
Cash EPS	65.4	74.4	64.2	82.9
BV	343.2	397.4	397.4	495.9
DPS	7.0	8.0	7.0	7.5
Cash Per Share	28.3	39.9	55.6	73.8
Operating Ratios (%)				
EBITDA Margin	24.7	24.3	20.3	23.2
PBT / Net Sales	20.9	20.3	16.1	19.0
PAT Margin	19.3	16.7	12.9	14.9
Inventory days	87.3	135.0	104.8	136.0
Debtor days	144.2	95.7	74.3	95.7
Creditor days	105.9	124.8	96.9	125.5
Return Ratios (%)				
RoE	15.9	12.2	12.2	13.0
RoCE	17.7	15.3	16.2	17.6
RoIC	25.4	19.6	21.2	18.1
Valuation Ratios(x)				
P/E	15.0	13.1	16.9	12.7
EV / EBITDA	11.4	10.7	9.9	8.1
EV / Net Sales	2.8	2.6	2.0	1.9
Market Cap / Sales	2.9	2.8	2.2	1.9
Price to Book Value	2.4	2.1	2.1	1.7
Solvency Ratios				
Net Debt / Equity	-	-	-	-
Current Ratio	2.2	1.8	1.8	1.8
Quick Ratio	1.4	0.8	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,826	2,175	Buy	256224	56.8	65.0	76.7	32.2	28.1	23.8	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,818	3,040	Buy	100355	29.5	36.7	48.5	95.6	76.7	58.1	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,579	2,973	Buy	24325	64.6	79.8	84.9	39.9	32.3	30.4	16.5	17.9	16.9	13.2	14.3	13.5
Thermax (THERMA)	2,104	2,405	Buy	25071	26.2	38.7	53.4	80.3	54.4	39.4	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	399	474	Hold	10258	12.9	15.5	29.6	30.9	25.7	13.5	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	163	179	Buy	3769	0.7	2.6	3.3	230.3	61.8	49.4	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	445	390	Buy	14102	5.7	6.6	8.7	77.9	67.5	51.2	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	284	315	Buy	69199	9.6	11.3	12.6	29.5	25.2	22.6	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	343	340	Hold	4512	42.9	38.6	42.3	8.0	8.9	8.1	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,393	4,920	Buy	21718	77.0	104.8	122.9	57.1	41.9	35.7	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,023	2,810	Buy	22739	43.5	54.8	62.5	101.0	80.2	70.3	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	142	220	Buy	1376	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	221	230	Buy	2632	9.8	11.5	13.6	22.6	19.2	16.3	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	833	900	Buy	4322	18.1	21.7	28.0	46.0	38.4	29.8	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,154	2,200	Buy	72028	151.9	123.6	137.4	14.2	17.4	15.7	27.4	29.7	30.5	26.3	22.5	23.2

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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,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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