

# The Anup Engineering (THEANU)

CMP: ₹ 1434

Target: ₹ 1880 (31%)

Target Period: 12 months

BUY

May 19, 2023

## Strong execution continues...

**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 undertaking a greenfield expansion in Kheda
- The company aims to achieve revenue of ₹ 1000 crore by FY27, implying a CAGR of ~35%

**Q4FY23 Results:** Strong revenue growth led by healthy execution.

- Revenue increased 44.2% YoY (up 26% QoQ) to ₹ 144.2 crore. For FY23, revenue was up 42.7% YoY to ₹ 411.3 crore
- EBITDA margin improved 115 bps QoQ to 20.9%. EBITDA increased 26.9% YoY (+33.3% QoQ) to ₹ 30.2 crore; mainly led by strong revenue growth. FY23 EBITDA was up 18.2% YoY to ₹ 82.7 crore
- Adjusted PAT was up 15.9% YoY. FY23 PAT was up 10.6% to ₹ 51.4 crore

**What should investors do?** Anup is on the cusp of entering a new trajectory led by new products and capex, which is expected to lead to strong topline.

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

**Target Price and Valuation:** We value Anup at ₹ 1880 i.e. 20x P/E on FY25E EPS.

**Key triggers for future price performance:**

- Strong order inflows expected from oil & gas, petrochemicals sectors as demand remains healthy for products like heat exchanger and vessels
- Timely commercialisation of Kheda capex ensuring sustained growth
- Exploring opportunities in nuclear, space and defence and exports 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



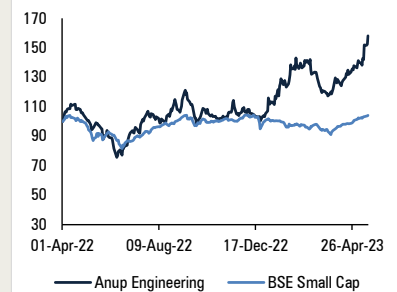
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	1,419
Total Debt (FY23) (₹ crore)	34
Cash and Inv (FY23) (₹ crore)	33
EV (FY23) (₹ crore)	1,364
52 week H/L (₹) (BSE)	1465 / 616
Equity capital (₹ crore)	9.9
Face value (₹)	10.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	43.0	43.0	43.0	43.0
FII	1.8	1.8	1.8	2.5
DII	3.1	3.1	3.1	3.0
Others	52.1	52.1	52.2	51.5

### Price Chart



### Recent event & key risks

- Progress at Kheda Capacity
- Key Risk:** Commodity inflation, Subdued exports

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## 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	526.5	631.8	23.9
EBITDA	68.8	70.0	82.7	9.7	116.6	147.8	33.7
EBITDA margin (%)	24.6	24.3	20.1		22.2	23.4	
PBT	61.7	62.7	70.0		98.2	125.7	
Net Profit	53.5	62.1	51.4	(2.0)	72.7	93.0	34.5
EPS (₹)	54.4	62.8	52.0		73.4	94.0	
P/E (x)	26.3	22.8	27.6		19.5	15.3	
EV/EBITDA (x)	20.2	19.5	17.2		12.2	9.6	
RoCE (%)	17.7	15.3	14.7		18.6	21.0	
RoE (%)	15.9	15.8	11.8		14.8	16.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Strong execution continues...

- Revenue for the quarter came in at ₹ 144.2 crore, up 44.2% YoY; led by strong execution and lower base (Q4FY22 revenues declined 25% YoY). Sequentially, revenue grew 26% QoQ. FY23 revenues were up 42.7% YoY to ₹ 411.3 crore (heat exchangers contributed 74%, vessels contributed 11% and balance 15% contributed by towers & reactors, centrifuge & others). Domestic, exports contribution was at 81%, 19%, respectively, for FY23
- Gross margin was at 44.6% against 44.9% in Q4FY22 and 48.7% in Q3FY23. EBITDA margin contracted 285 bps YoY to 20.9% on account of an increase in other expenditure (+73.7% YoY). However, the EBITDA margin improved 115 bps
- EBITDA increased 26.9% YoY (+33.3% QoQ) to ₹ 30.2 crore; mainly led by strong revenue growth. FY23 EBITDA was up 18.2% YoY to ₹ 82.7 crore
- Reported PAT was down 39.8% YoY (up 40.3% QoQ) to ₹ 19.5 crore on account of tax gain reported in Q4FY22. Adjusted PAT was up 15.9% YoY. Adjusted FY23 PAT was up 10.6% to ₹ 51.4 crore

### Earnings Call highlights

- Order backlog was at ₹ 530 crore at the end of FY23. Order inflows were at ₹ 548 crore during the year
- Domestic markets constitute 70% of the order backlog while exports share was 30%
- Orders inflow is expected to grow 30% in FY24. Orders worth ₹ 150 crore were already received in April & May 2023
- There has been good traction in enquiries from sectors/segment: Oil & gas, petrochemicals, chemicals, etc. Also, 25-30% of new orders are expected from export markets
- Revenue growth guidance was at 25-30% for FY24. EBITDA margin guidance was maintained at 22% (led by high metallurgy)
- Export revenue share is expected to increase to 30% in FY24 and further gradually to increase to 40% in coming periods. The exports share is currently at 19% of sales in FY23
- The company is focused on the US markets and Middle East markets for exports to maintain its position among top four exporters
- The company aims to reach revenue of ₹ 1000 crore by FY27
- The new facility at Kheda is ready with trial production on. Anup is awaiting final approvals for full scale production, which is expected to be received in May 2023. First dispatch is expected in October
- Capex for the Kheda plant was ₹ 75 crore in FY23. It will be ₹ 47 crore in FY24

**Exhibit 1: Variance Analysis**

Year	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ(%)	Comments
Income from Operation	144.2	100.0	44.2	114.4	26.0	Strong execution across all segments
Cost of materials consumed	75.6	57.6	31.4	54.5	38.8	
Purchase of stock-in-trade	0.0	0.0		0.0		
Changes in inventories	4.2	-2.5		4.2		
Employee cost	5.6	4.7	19.5	5.9	-4.6	
Other expenses	28.6	16.4	73.7	27.2	5.0	
EBITDA	30.2	23.8	26.9	22.6	33.3	
EBITDA Margin (%)	20.9	23.8	-285 bps	19.8	115 bps	Margin improves on QoQ; in-line with management's guidance
Other Income	0.5	2.4	-80.5	0.2	183.9	
Depreciation	3.5	2.9	20.9	3.2	11.1	
Interest	0.3	0.5	-39.6	0.5	-39.8	
PBT	26.8	22.7	17.9	19.1	40.2	
Taxes	7.4	-9.6	-176.5	5.2	40.2	
PAT	19.5	32.4	-39.8	13.9	40.3	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

	FY24E		Change	FY25E
₹ crore	Old	New		New
Revenue	479.9	526.5	9.7%	631.8
EBITDA	111.8	116.6	4.3%	147.8
EBITDA Margin (%)	23.3	22.2	-115 bps	23.4
PAT	71.5	72.7	1.6%	93.0
EPS (₹)	72.3	73.4	1.6%	94.0

Source: ICICI Direct Research, Company

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	288	411	527	632
Total Operating Income	288	411	527	632
% Growth (Operating Income)	3.3	42.7	-	-
Other Income	3.8	1.2	2	2
<b>Total Revenue</b>	<b>292.0</b>	<b>412.6</b>	<b>528.0</b>	<b>633.3</b>
Cost of materials consumed	163	233	274	325
Purchase of stock-in-trade	-	-	-	-
Change in inventories	(23)	(11)	-	-
Employee cost	20	21	26	27
Other Expenses	58	86	111	131
Total expenditure	218	329	410	484
<b>EBITDA</b>	<b>70.0</b>	<b>82.7</b>	<b>116.6</b>	<b>147.8</b>
% Growth (EBITDA)	1.8	18.2	41.0	26.8
Interest	1.0	1.4	2	2
PBDT	73	83	-	-
Depreciation	12	13	18	22
PBT	61	70	98	126
Tax	(1)	19	26	33
<b>PAT</b>	<b>62.1</b>	<b>51.4</b>	<b>72.7</b>	<b>93.0</b>
% Growth (PAT)	15.9	(17.1)	41.3	28.0
EPS	62.8	52.0	73.4	94.0

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Share Capital	9.9	9.9	9.9	9.9
Reserves & Surplus	384	428	481	550
<b>Total Shareholders fund</b>	<b>393</b>	<b>438</b>	<b>491</b>	<b>560</b>
Goodwill	-	-	-	-
Total debt	-	34.3	34.3	34.3
Other liabilities	12.0	12.1	12.1	12.1
<b>Total Liabilities</b>	<b>405</b>	<b>484</b>	<b>537</b>	<b>606</b>
Gross Block	222	253	370	420
Acc: Depreciation	39	52	70	93
Net Block	183	201	299	327
Capital WIP	31	87	20	20
Investments	11	4	4	4
Inventory	90	127	173	208
Sundry debtors	125	149	190	228
<b>Cash</b>	<b>53</b>	<b>33</b>	<b>25</b>	<b>35</b>
Loans & Advances	-	-	-	-
Inv + Other current assets	13	26	26	26
CL& Prov.	120	159	218	258
Net Current Assets	161	175	197	238
<b>Total Assets</b>	<b>405</b>	<b>484</b>	<b>537</b>	<b>606</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	62	51	73	93
Depreciation	12	13	18	22
Interest	1	1	2	2
Other income	(4)	(1)	(2)	(2)
Prov for Taxation	(1)	19	26	33
Change in Working Capital	4	(34)	(28)	(32)
Taxes Paid	0	(18)	(26)	(33)
<b>Cash from Operations</b>	<b>74</b>	<b>30</b>	<b>63</b>	<b>83</b>
(Purchase)/Sale of Fixed Assets	(32)	(83)	(50)	(50)
(Purchase)/Sale of Investments	(9)	6	-	-
Other Income	4	1	2	2
<b>Cash from Investing</b>	<b>(38)</b>	<b>(76)</b>	<b>(49)</b>	<b>(49)</b>
Changes in Networth	2	8	-	(0)
Interest	(1)	(1)	(2)	(2)
Dividend paid	(8)	(15)	(20)	(24)
<b>Cash from Fin</b>	<b>(7)</b>	<b>(9)</b>	<b>(21)</b>	<b>(25)</b>
Changes in Cash	29	(20)	(7)	9
Opening Cash/Cash Equivalent	24	53	33	25
Closing Cash/ Cash Equivalent	53	33	25	35

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per Share Data</b>				
EPS	62.8	52.0	73.4	94.0
Cash EPS	74.5	64.6	92.0	116.4
BV	398.1	442.3	495.7	565.7
DPS	8.0	15.0	20.0	24.0
Cash Per Share	39.9	52.5	71.2	93.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	24.3	20.1	22.2	23.4
PBT / Net Sales	20.3	17.1	18.7	19.9
PAT Margin	21.5	12.5	13.8	14.7
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	149.3
<b>Return Ratios (%)</b>				
RoE	15.8	11.8	14.8	16.6
RoCE	15.3	14.7	18.6	21.0
RoIC	21.0	22.1	22.1	24.9
<b>Valuation Ratios(x)</b>				
P/E	22.8	27.6	19.5	15.3
EV / EBITDA	19.5	17.2	12.2	9.6
EV / Net Sales	4.7	3.5	2.7	2.2
Market Cap / Sales	4.9	3.4	2.7	2.2
Price to Book Value	3.6	3.2	2.9	2.5
<b>Solvency Ratios</b>				
Net Debt / Equity	-	0.0	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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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