The Anup Engineering Limited

July 07, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	15.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short-term bank facilities	274.00 (Enhanced from ₹214.00 crore)	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Short-term bank facilities	16.00 (Reduced from ₹31.00 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**305.00 (₹ Three hundred five crore only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of The Anup Engineering Limited (Anup) continue to derive strength from its experienced promoters, established track record in the critical process equipment industry along with its reputed clientele. The ratings also continue to factor Anup's strong financial risk profile marked by low leverage, comfortable debt coverage indicators, healthy profitability and strong liquidity. CARE Ratings also takes cognizance of its improved revenue visibility on the back of significant increase in its order book.

The ratings, however, continue to be tempered by Anup's moderate scale of operations which has remained largely range bound over last five years ended FY22 (FY refers to period April 01 to March 31), its high working capital intensity, and concentration of its order-book towards few products and end-user industry. The ratings are also constrained by its large size capex plan which is likely to restrict its free cash flow in the medium term.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant increase in its total operating income (TOI) to nearly ₹800 crore through greater diversification along with PBILDT margin over 25% on a sustained basis
- Contraction of its gross operating cycle (inventory plus debtors) to less than 150 days on a sustained basis along with maintaining its comfortable leverage

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in its PBILDT margin to below 20% on a sustained basis
- Elongation in its operating cycle to around 250 days on a sustained basis along with adverse impact on its liquidity
- Higher than envisaged debt funded capex/investment plan or elongation in its working capital leading to significant deterioration in its leverage and moderation in its return indicators

Detailed description of the key rating drivers

Key rating strengths

Experienced promoter group along with established track record in the process equipment industry: The promoters of Anup have vast experience of over five decades in managing various businesses. Mr. Sanjay Lalbhai, Chairman of Anup, is also the Chairman & Managing Director of Arvind Limited (Arvind; rated: CARE AA-; Stable/ CARE A1+). Mr. Rishi Roop Kapoor, CEO of Anup, is a metallurgist from IIT Roorkee and holds master's degree in marketing management. He has experience of more than two decades in the process equipment industry and was instrumental in improving the performance of Anup.

Anup has a track record of more than five decades in the business of design and fabrication of process equipment and engineering goods since its incorporation in 1962. Anup is ISO 9001: 2008 and BS OHSAS 18001- 2007 certified company. The products of Anup are approved by all the major third-party inspection agencies and consultants like Engineers India Limited (EIL), Jacob H&G Limited, UHDE India Limited, Project Development India Limited etc. Further, Anup has also acquired "U", "U2", "S" & "R" stamp authorization certifications issued by American Society of Mechanical Engineers (ASME) to penetrate export market (ASME product certification mark complies with the laws and regulations of nearly 100 countries as a means of meeting their government safety regulations).

Reputed clientele: Anup's products mainly cater to the industries like oil refineries, petrochemical, fertilizer, power generation plants, etc. Anup has established its presence in the niche Helical Baffle heat exchanger known as 'Helixchanger' under license from Lummus Technology Heat Transfer B.V, Netherlands. Anup has established relationship with reputed customers due to quality of its products and adherence to the delivery schedule. Further, Anup has been adding new clientele in domestic as well as export markets over the years. Anup's clientele includes Reliance Industries Limited (rated: CARE AAA; Stable/ CARE A1+), Indian Oil Corporation Limited, HPCL- Mittal Energy Limited, Toyo Engineering Limited (rated: CARE A+; Stable/ CARE A1+), Nayara Energy Limited (rated: CARE AA-; Under Credit watch with Developing Implications/ CARE A1+), etc. Most of Anup's clientele enjoy healthy financial risk profile thereby reducing counterparty risk.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Improved revenue visibility: Anup's unexecuted order-book stood at ₹393 crore as on March 31, 2022 (₹256 crore as on March 31, 2021) which further increased in Q1FY23 post receipt of large order of nearly ₹100 crore from oil refinery company providing revenue visibility of nearly 2 years. Large sized capex plans by companies operating in oil and gas industry led to improved order book to sales ratio for Anup to nearly 2x which earlier used to remain in range of 1x-1.5x. The order-execution of Anup tends to remain skewed towards Q4 of the financial year.

Healthy profitability and return indicators: During FY22, Anup's PBILDT margin remained largely stable at 24.58% as against 25.22% during FY21. However, PBILDT margin is expected to moderate in near to medium term. Despite expectation of some moderation in PBILDT margin due to quick adverse movement in raw material prices, the prudent risk management policies of the company are expected to keep its PBILDT margin healthy at around 20-22% in the medium term. Anup also has a strict control over its overheads while keeping optimum product mix. Moreover, Anup's technical expertise and specialized products like 'Helixchanger' and 'Embaffle Heat Exchangers' (Anup is the first Indian company to fabricate 'Embaffle Heat Exchangers') which offer significant benefits over conventional heat exchangers are expected to support its profitability.
Anup's Return on Capital Employed (ROCE) remained healthy at around 17% during FY22 (around 18% during FY21) despite some moderation in it during last few years. The ROCE is expected to remain healthy in medium term backed by efficient capital allocation.

Low leverage and comfortable debt coverage indicators: Anup's leverage remains low marked by overall gearing ratio of 0.19x (considering letter of credit backed creditors and mobilization advances as part of debt) as on March 31, 2022 (0.21x as on March 31, 2021) on account of minimum reliance on external borrowings. Anup did not have any long-term debt or fund-based working capital bank borrowing outstanding as on March 31, 2022. Moreover, debt coverage indicators marked by PBILDT interest coverage and total debt to GCA continued to remain comfortable during FY22 backed by healthy profitability. Despite drawal of term debt of around Rs.40-50 crore for ongoing capex, its leverage is expected to remain low backed by expectation of healthy accretion of profit to reserve.

Liquidity: Strong
Despite its large working capital requirement, Anup's liquidity remains strong marked by almost nil utilization of its fund based working capital limits, healthy cash-flow from operations of nearly ₹65 crore during FY22 and cash and cash equivalent of nearly ₹50 crore as on March 31, 2022. Anup's envisaged cash accruals along with its existing liquidity are sufficient to meet its capex and incremental working capital requirement. Anup's liquidity is expected to remain strong backed by its healthy cash accruals and access to unutilised limits. Furthermore, company may fund its ongoing capex partially with term loan on need basis to maintain liquidity cushion. Existing low leverage provides sufficient headroom to borrow.

Key rating weaknesses
Moderate and range-bound scale of operations: Over FY18-FY22, Anup's scale of operations marked by TOI remained moderate and range-bound between ₹225-285 crore. Moreover, despite long track record and healthy profitability, the net worth of the company remained modest at nearly ₹370 crore as on March 31, 2022.
TOI of Anup remained stable at around ₹280 crore during FY22 compared with FY21 due to supply chain disruption on the back of Covid-19 related challenges in Q4FY22 and delay at project sites of its customers impacting project execution. Further, capacity constraint at its existing manufacturing facility has restricted growth in its scale of operations in the last few years. Capacity expansion during FY21-FY22 along with commissioning of new manufacturing facility is expected to enhance the execution capabilities with expectation of diversification in product profile and end-user industry. Improved order book supported by capacity expansion could be a catalyst for sustainable growth in its scale of operations.

Working capital intensive nature of operations: Anup's operating cycle stood at 225 days during FY22 (224 days during FY21) mainly due to large inventory holding and high collection period. Anup's management has articulated about maintaining a policy to buy raw material for a particular order as soon as the order is received to protect itself from the volatility in the raw material prices. Although this practice is followed in normal course of business, Anup could not implement the same completely in FY22 when there was a very sharp and quick movement in metal prices. Moreover, Anup generally holds inventory of around 30% of the outstanding order-book. However, the inventories are mapped to the specific orders thereby reducing salability risk.
Anup also receives interest free advances from its customers which keeps Anup's external fund-based borrowing requirement low. These customer advances are against the financial bank guarantee (BG) furnished by Anup. It had outstanding customer advances of ₹62.40 crore as on March 31, 2022 (₹48.40 crore as on March 31, 2021). Further, Anup needs to submit performance BG to its customers for release of retention money. These keep Anup's requirement of non-fund based working capital limits high. Timely enhancement of its non-fund based working capital limits to keep up with expected increase in its order-book and increasing order execution shall remain a monitorable.

Concentration of order-book towards few products and end-user industry: Out of total unexecuted order with Anup as on March 31, 2022, 75% were for manufacturing of heat exchangers and 16% were for manufacturing of pressure vessels (largely similar product profile of the order-book as on March 31, 2021) which reflects product concentration. However, these products are customized and are manufactured according to the specific requirement of the customer. Further, its order-book is also moderately concentrated in terms of end-user industry as nearly 60% of all the unexecuted orders are from the oil refining industry. Any significant downturn in the capex cycle of the refining industry may restrict order-inflow for the company.

Ongoing capacity expansion under wholly owned subsidiary: Anup is setting up a new manufacturing facility at Kheda near Ahmedabad, Gujarat, under its wholly owned subsidiary, Anup Heavy Engineering Limited (AHEL). Anup has plans to implement the entire project in a phase wise manner. Under Phase-I of the project, Anup plans to incur cost of nearly ₹120 crore which is being funded through equity/ internal accruals, available liquidity, and balance through term loan of ₹50 crore. Earlier, entire capex was expected to be funded through internal accruals and available liquid surplus. However, Anup plans to avail term loan on need basis only to maintain liquidity cushion. As on March 31, 2022, Anup had spent around ₹30 crore towards the capex which was funded through internal accruals. The proposed capex is expected to improve Anup's order execution capabilities along with addition of new products in its portfolio. The capex includes building and other peripheral infrastructure for eight bays considering the future expansion plans. Phase-I (two bays) of the project is expected to be commissioned in January 2023. As informed by the management, Anup may plan phase-II of the project after stabilization of the phase-I. Phase-II and phase-III of the project are expected to entail aggregate capex of nearly ₹150 crore. Increase in pace of order execution and generation of envisaged returns from the project shall remain an important monitorable.

Susceptible to volatile raw material prices: Metal (mild-steel as well as stainless-steel) sheets, plates, tubes, pipes and other components are the basic raw material used by Anup for fabrication of process equipment. The inherent volatility in their prices could impact Anup's profitability as orders generally don't contain price escalation clause. However, Anup generally undertakes back-to-back arrangement for booking of raw materials against its orders which mitigates the raw material price fluctuation risk to some extent. However, Anup is exposed to volatility in raw material price between the submission of price quotation and receipt of orders.

Industry outlook
Anup's growth prospects are dependent on new as well as maintenance capex budgets of entities engaged in oil refineries, petrochemicals, chemicals, pharmaceuticals, fertilizers and other allied industries. Although the investments in oil refineries and petrochemical plants in Europe and North America is declining, investments in these sectors are growing in Asia and especially in India due to rising demand of petroleum products to support the growing economy and their cost competitiveness compared to refining and petrochemical plants in Europe and North America. Outlook for oil and gas industry is expected to remain stable in medium term on account of post pandemic recovery and government spending in infrastructure supporting industries. The union budget has proposed a capital outlay of ₹1,11,354 crore for oil and gas companies in FY23, a 7% increase on y-o-y basis which will be beneficial for engineering and EPC companies operating in oil and gas industry.

Analytical approach: Consolidated
CARE Ratings has considered the consolidated financials of Anup along with its wholly owned subsidiary i.e. AHEL. Anup is undertaking major capex under AHEL and phase-I of said capex is expected to be commissioned by Q4FY23. Considering Anup's large-size equity commitment towards ongoing capex under AHEL and envisaged synergies therefrom, CARE Ratings has changed its analytical approach from standalone to consolidated.

Applicable criteria:
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for short-term instruments
Financial ratios – Non-Financial Sector
Rating methodology: Consolidation
Rating Methodology - Manufacturing Companies
Liquidity analysis of non-financial sector entities

About the company
Incorporated in 1962, Anup is engaged in the business of design and fabrication of process equipment which mainly includes heat exchangers, pressure vessels, centrifuges, columns/towers and small reactors that find application in refineries, petrochemicals, chemicals, pharmaceuticals, fertilizers and other allied industries. Anup is listed on BSE and NSE with promoter's equity stake of 43.04% as on March 31, 2022.

Brief Consolidated Financials (₹ crore)	FY21 (A)	FY22 (A) *
Total operating income	279.13	288.23
PBILDT	70.38	70.86
PAT	53.52	62.05
GCA	56.82	57.26
Overall gearing (times) (including mobilization advance as debt) ^	0.21	0.19
PBILDT Interest coverage (times)	45.35	37.02

A: Audited; * Abridged audited published results on stock exchange; ^ Mobilization advance availed by furnishing financial bank guarantee
Financials are classified as per CARE Ratings standard

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Not Applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	110.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Cash credit	-	-	-	-	15.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	164.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	15.00	CARE A1+
Fund-based - ST-Working Capital Demand loan	-	-	-	-	1.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ ST	110.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (28-Jul-21)	1)CARE A+; Stable / CARE A1+ (12-Aug-20)	1)CARE A+; Stable / CARE A1+ (20-Sep-19)
2	Fund-based - LT-Cash Credit	LT	15.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Jul-21)	1)CARE A+; Stable (12-Aug-20)	1)CARE A+; Stable (20-Sep-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ ST	164.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (28-Jul-21)	1)CARE A+; Stable / CARE A1+ (12-Aug-20)	1)CARE A+; Stable / CARE A1+ (20-Sep-19)
4	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1+	-	1)CARE A1+ (28-Jul-21)	1)CARE A1+ (12-Aug-20)	1)CARE A1+ (20-Sep-19)
5	Fund-based - ST-Working Capital Demand loan	ST	1.00	CARE A1+	-	1)CARE A1+ (28-Jul-21)	1)CARE A1+ (12-Aug-20)	1)CARE A1+ (20-Sep-19)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Working Capital Demand loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-4: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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