The Anup Engineering Limited

July 05, 2023

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term bank facilities	15.00	CARE A+; Stable	Reaffirmed
Long-term/ Short-term bank facilities	294.00 (Enhanced from 274.00)	CARE A+; Stable/ CARE A1+	Reaffirmed
Short-term bank facilities	16.00	CARE A1+	Reaffirmed

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 Limited (CARE Ratings) also takes cognizance of growth in revenue during FY23 (FY refers to period April 01 to March 31) and expectation of healthy growth in the medium term supported by increase in its order book and commencement of new manufacturing facility at Kheda near Ahmedabad.

The ratings, however, continue to be tempered by Anup's moderate scale of operations relative to other capital good industry players, its high working capital intensity marked by elongated operating cycle, and concentration of its order-book towards few products and the end-user industry. The ratings are also constrained by envisaged large-size capex plan which is likely to restrict its free cash flow in the medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in its total operating income to around ₹800 crore through greater diversification of its revenue stream with PBILDT margin in excess of 22% 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

- Decline in its PBILDT margin to below 18% 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

Analytical approach: Consolidated

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that Anup is likely to maintain its strong operational performance backed by an established track record and strong revenue visibility. Stable outlook also reflects sustenance of its healthy profitability, debt coverage indicators and capital structure.

Key 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. Sanjay Lalbhai, Chairman of Anup, is also the Chairman & Managing Director of Arvind Limited (Arvind; rated: CARE AA-; Stable/ CARE A1+). Anup has a track record of nearly six 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 Ltd. (EIL), Jacob H&G Ltd., ThyssenKrupp Industrial Solutions (India) Private Limited, Project Development India Ltd. 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).

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

Reputed clientele limiting counter-party risk: Anup's products mainly cater to the industries like 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 LLC, USA. Anup has established relationship with reputed customers due to quality of its products and adherence to the delivery schedule. Furthermore, 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 (rated: CARE AAA; Stable/ CARE A1+), HPCL- Mittal Energy Limited, Toyo Engineering Limited (rated: CARE A+; Stable/ CARE A1+), Nayara Energy Limited (rated: CARE AA-; Stable/ CARE A1+), etc. Majority of Anup's clientele enjoy healthy financial risk profile thereby reducing counterparty risk.

Growth in total operating income (TOI) during FY23 which is likely to continue in medium term: The scale of operation of the company marked by TOI grew healthy by 43% during FY23 over FY22 backed by better execution of order book along with commodity price inflection. The growth in TOI was supported by volume growth of around 15% and balance was attributed to elevated commodity prices during the year. Furthermore, TOI is expected to grow healthy at around 20-25% during FY24 on a y-o-y basis backed by strong order book of ₹658 crore as on May 31, 2023, which is at all-time high for the company. The order book is also supported by large sized capex plans by companies operating in oil and gas industry. Improved order book along with capacity expansion at Kheda, near Ahmedabad could be a catalyst for sustainable growth in its scale of operations going forward. The new facility at Kheda has completed its Phase-I development & started production during Q1FY24.

Healthy profitability and return indicators: During FY23, Anup's PBILDT margin declined by 415 bps on a y-o-y basis to 20.42% which has remained largely on the envisaged level. The decline in margin during FY23 was largely on account of elevated commodity prices which witnessed quick and sharp volatility during the year. However, with stabilization of commodity prices along with growth in scale of operation, the PBILDT margin is expected to improve to around 21-22% during FY24-FY26. Anup also has strict control over its overheads coupled with efficient management of order book and product mix. Moreover, Anup's technical expertise and specialized products like 'Helixchanger' and 'Embaffle Heat Exchangers' offer significant benefits over conventional heat exchangers which is expected to support its profitability. Anup's return on capital employed i.e., ROCE stood healthy at around 16.29% during FY23 (around 16.67% during FY22). ROCE is expected to remain healthy in the range of 17-19% for FY24-FY26.

Low leverage and comfortable debt coverage indicators: Anup's leverage remains low marked by overall gearing ratio of 0.29x (considering letter of credit backed creditors and mobilization advances as part of debt) as on March 31, 2023 (0.19x as on March 31, 2022) on account of minimum reliance on external borrowings. Despite debt drawal of around ₹41 crore out of the sanctioned project term debt of ₹50 crore) as on May 31, 2023, its leverage is expected to remain below 0.20x over FY24-FY26. Moreover, debt coverage indicators marked by PBILDT interest coverage, total debt to PBILDT and total debt/ GCA continued to remain comfortable during FY23 backed by healthy profitability. Further, the same are expected to remain comfortable in medium term on account of expectation of healthy profitability and continued low reliance on external debt.

Impending merger of Anup Heavy Engineering Limited (AHEL) with Anup: On recommendation of the audit committee, the Board of Directors of Anup at their meeting held on December 29, 2022, approved the Scheme of Arrangement for the merger of AHEL, a wholly owned subsidiary, with Anup. CARE Ratings expects the merger of AHEL with Anup to bring operational efficiency and eliminate inter-company transactions. The merger is subject to the statutory and regulatory approvals including the approvals of the National Company Law Tribunal (NCLT), the shareholders, and the creditors. The management expects completion of merger by Q3FY24, marginally ahead of earlier expectation of Q4FY24.

Favourable industry outlook: Anup is engaged in the manufacturing/fabrication of process equipment mainly for oil refineries, petrochemical plants, fertilizer plants, chemical plants etc. Anup's growth prospects are dependent on new as well as maintenance capex budgets of entities engaged in these industries. Although the fresh 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. However, company is continuing to receive replacement orders from these regions. Outlook for oil and gas industry is expected to remain stable in the medium term on account of post pandemic recovery and government spending in infrastructure supporting industries. The union budget has proposed a capital outlay of Rs.1,06,401 crore for oil and gas companies in FY24, a 21% increase over the revised estimate for FY23. The same is likely to benefit the engineering and EPC companies operating in the oil and gas industry.

Liquidity: Strong

Despite its large working capital requirement to support its elongated operating cycle, Anup's liquidity remains strong marked by almost negligible utilisation of its fund based working capital limits & around 74% utilization of non-fund based limits, healthy cash-flow from operations of nearly ₹31 crore during FY23 and cash and cash equivalent of nearly ₹32 crore as on March 31, 2023. Anup's envisaged cash accruals, undisbursed portion of its project term debt and 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. Additionally, existing low leverage also provides sufficient headroom to borrow.

Key weaknesses

Moderate scale of operation: Despite growth in TOI, the scale of operation of the company remained moderate relative to other capital good industry players due to its limited product offerings. Moreover, despite long track record and healthy profitability, the tangible net worth of the company remained modest at nearly ₹420 crore as on March 31, 2023. Capacity constraint at its existing manufacturing facility (inability to handle equipment with weight more than 200 tons) had restricted its scale of operations in the past. However, with commencement of new manufacturing facility at Kheda, near Ahmedabad, Anup expects to grow its scale of operation as it can now handle large size equipment and export orders more efficiently.

Working capital intensive nature of operations: Anup's operating cycle stood at 181 days during FY23 (improved from 225 days during FY22) mainly due to improvement in both inventory & collection days. Anup's management has articulated about maintaining a policy to buy raw material for a particular order as soon as the order is received so as to protect itself from the volatility in the raw material prices. At any point of time, Anup holds inventory of around 30% of the outstanding order-book. However, all the inventories are mapped to specific orders thereby reducing saleability risk. Anup 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. Anup had customer advances of ₹72.08 crore as on March 31, 2023 (Rs.62.40 crore as on March 31, 2022). 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 remains one of key monitorable.

Large size capex plan which is likely to restrict its free cash flow in the medium term: Anup has established a new manufacturing facility at Kheda, near Ahmedabad under its wholly owned subsidiary, AHEL. Anup has developed and implemented the first Phase – I (comprises of 2 bay) of the projects, with an aggregate cost of around ₹120 crore which was being funded through project term loan of around Rs.41 crore (sanctioned limit of ₹50 crore) and remaining through internal accruals and available liquidity. The company plans to develop and implement Phase – II & III of the project comprises of another 6 bays with an investment outlay of around Rs.150 crore. As informed by the management, Phase-II and phase-III of the project is expected to be commissioned by June 2024 and September 2025 respectively. The proposed capex is expected to improve Anup's order execution capabilities along with addition of new products in its portfolio. Increase in pace of order execution and generation of envisaged returns from the project shall remain an important monitorable.

Concentration of order-book towards few products and end-user industry: Out of total unexecuted order with Anup as on May 31, 2023, 77% were for manufacturing of heat exchangers and 15% were for manufacturing of pressure vessels (largely similar product profile of the order-book as on March 31, 2022) which reflects product concentration. However, these products are not standardized and are manufactured according to the specific requirement of the customer. Furthermore, its order book is also moderately concentrated in terms of end-user industry of its products 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.

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. Although Anup is exposed to volatility in raw material price between the submission of price quotation and receipt of orders.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	Anup is dedicated to discharge minimum waste & targets Zero waste. The company has an effluent waste treatment to put waste to re-use & manage its waste efficiently. The quality and environment practices of the company follow ISO 9001:2015 and ISO 14001:2015 standards. The company also plans to install solar panel across its manufacturing facilities which will generate 65% of its total power requirement in form of renewable energy.
Social	Anup has implemented CSR policy & undertakes various initiatives such as crop protection initiative, farmers skill training, supports a pathology lab etc. The company regularly plans training for the employees & workers. Moreover, Anup follows ISO 45001:2018 requirements of an occupational health and safety (OH&S) management system.
Governance	Being a listed company, it complies with all regulatory requirement for disclosures. Company has all the required committees in place such as employee redressal, CSR, whistle blower etc. Company in its board has 50% of directors as independent directors. Company is transparent in sharing of information.

Applicable criteria/

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Other Industrial Products

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 the promoter's equity stake of 42.98% as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A) *
Total operating income	288.23	411.34
PBILDT	70.83	83.98
PAT	62.03	51.43
Overall gearing (times) ^	0.19	0.29
PBIDLT Interest coverage (times)	37.06	32.79

A: Audited; * Abridged audited published results on stock exchange; ^ Including Mobilization advance availed by furnishing financial bank guarantee as a part of total debt.
Financials are classified as per CARE Ratings standard.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	15.00	CARE A+; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	-	1.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	110.00	CARE A+; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	184.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	15.00	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 2023-2024	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	110.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Jul-22)	1)CARE A+; Stable / CARE A1+ (28-Jul-21)	1)CARE A+; Stable / CARE A1+ (12-Aug-20)
2	Fund-based - LT-Cash Credit	LT	15.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Jul-22)	1)CARE A+; Stable (28-Jul-21)	1)CARE A+; Stable (12-Aug-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	184.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Jul-22)	1)CARE A+; Stable / CARE A1+ (28-Jul-21)	1)CARE A+; Stable / CARE A1+ (12-Aug-20)
4	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1+	-	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (28-Jul-21)	1)CARE A1+ (12-Aug-20)
5	Fund-based - ST-Working Capital Demand loan	ST	1.00	CARE A1+	-	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (28-Jul-21)	1)CARE A1+ (12-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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-5: Lender details

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

Note on the 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:
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