The Anup Engineering Limited

July 04, 2024

Facilities/ Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	99.27 (Enhanced from 59.00)	CARE A+; Stable	Reaffirmed
Long-term / short-term bank facilities	555.00 (Enhanced from 294.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	55.00 (Enhanced from 16.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to 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 and its reputed clientele. 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 cognisance of sustained strong growth in revenue in FY24 (FY refers to April 01 to March 31) and expectation of further growth in the medium term supported by healthy order book and commencement of new manufacturing facility at Kheda near Ahmedabad. Ratings further factor expected synergies from acquisition of 100% equity stake in Mabel Engineering Private Limited (MEPL), a company in Tamil Nadu and engaged in manufacturing vessels and silos, through product diversification and geographical diversification.

However, Anup's long-term rating, remain tempered by its moderate scale of operations relative to other capital goods industry players, high working capital intensity marked by elongated operating cycle, and concentration of its order-book towards few products and the end-user industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in its total operating income (TOI) 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.

While assessing Anup's credit profile, CARE Ratings has considered the standalone profile of Anup along with its recently acquired subsidiary in June 2024, MEPL. The list of entities whose financials have been consolidated in Anup is mentioned in Annexure-6. CARE Ratings had previously considered the standalone financials of Anup post the merger of its only subsidiary; Anup Heavy Engineering Limited (AHEL) with Anup with effect from April 01, 2022.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that Anup shall 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.

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

Detailed description of key rating drivers:

Key strengths

Experienced promoter group along with established track record in the process equipment industry

Anup's promoters have vast experience of around six decades in managing different businesses. Sanjay Lalbhai, Chairman of Anup, is also the Chairman and Managing Director of Arvind Limited (Arvind; rated: CARE AA-; Stable/ CARE A1+). Anup has a track record of nearly six decades in design and fabrication of process equipment and engineering goods since its incorporation in 1962. Anup is an ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 certified company. Anup also possesses certifications from PESO (Petroleum and Explosives Safety Organisation) and IBR (Indian Boiler Regulations). Anup's products are approved by all major third-party inspection agencies, project management consultants and engineering project consultants such as Engineers India Limited, Project Development India Limited, Jacob H&G Limited, ThyssenKrupp Industrial Solutions (India) Private Limited, Air products USA, Toyo Japan, Saipem, Linde Germany and Technip France among others. Further, Anup has also acquired "U", "U2", "S" & "R" stamp authorisation 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 limiting counterparty risk

Anup's products mainly cater to the industries including refineries, petrochemical, fertilizer, and power generation plants among others. Anup 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 the quality of its products and adherence to delivery schedules. It has been adding new clientele in domestic and export markets over the years. Anup's clientele includes Reliance Industries Limited (rated: CARE AAA; Stable/ CARE A1+), Indian Oil Corporation Limited, Numaligarh Refinery Limited, GAIL (India) Limited (rated: CARE AAA; Stable/ CARE A1+), Toyo Engineering Limited (rated: CARE A+; Stable/ CARE A1+), and Nayara Energy Limited (rated: CARE AA-; Stable/ CARE A1+) among others. Majority of Anup's clientele enjoy healthy financial risk profile thereby reducing counterparty risk.

Sustained growth in TOI in FY24, which is likely to continue in the medium term

After reporting strong revenue growth of over 40% in FY23, the company's scale of operation marked by TOI grew healthy by 34% in FY24 to ₹550 crore backed by efficient execution of order book and commencement of new manufacturing facility at Kheda in September 2023. Anup expects extension of the second bay at Kheda to be operational in Q2FY25. In March 2024, Anup entered into a definitive share purchase agreement to acquire 100% stake in MEPL at cost of ₹33 crore. Subsequently, Anup acquired MEPL in June 2024. The acquisition gives an added product portfolio along with increase geographical reach in South India. In FY24, Mabel reported TOI of around ₹50 crore with PBILDT margin of around 18%. Anup has delayed capex of Phase-II under Kheda facilities, which would have entailed cost of around ₹120 crore. Hence, acquisition enabled Anup to increase its capacity instantly within lower-than-earlier envisaged cost of expansion at the Kheda facility. Hence, revenue and profitability in FY25 are expected to remain higher-than-earlier-envisaged. TOI is expected to grow healthy by over 30% in FY25 on a y-o-y basis supported by strong order book of around ₹900 crore as on June 15, 2024, which is at its all-time high for the company. An improved order book along with additional capacity could be a catalyst for sustainable growth in its scale of operations going forward.

Healthy profitability margins and return indicators

Anup has been maintaining healthy PBILDTs margin of over 20% over past many years despite volatility in commodity prices backed by strict control over its overheads coupled with efficient management of order book and product mix. 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. With stabilization of commodity prices and growth in scale of operations, Anup reported PBILDT margin of 23% in FY24 (FY23: 20%). Anup's return on capital employed (ROCE) stood healthy at 22.73% in FY24 (FY23: 16.29%). CARE Ratings expects Anup to maintain PBILDT margins of over 21-22% in the medium term with growing scale of operations, while ROCE is expected to remain healthy at over 20%.

Low leverage and comfortable debt coverage indicators

Anup has a comfortable capital structure marked by overall gearing ratio of 0.36x (considering letter of credit backed creditors and mobilisation advances as part of debt) as on March 31, 2024 (0.29x as on March 31, 2023) on account of minimum reliance on external borrowings. Increase in the debt level in FY24 as against FY23 was mainly due to higher mobilisation advances backed by increase in share of exports. CARE Ratings expects overall gearing of Anup to remain below 0.50x with no debt funded capex plans in the medium term.

Debt coverage indicators marked by PBILDT interest coverage, total debt to PBILDT and total debt to gross cash accruals (TD/GCA) continued to remain comfortable in FY24 as well backed by healthy profitability. CARE Ratings expects debt coverage indicators to remain comfortable in the medium term on account of expectation of healthy profitability and continued low reliance on external debt.

Favourable industry outlook

Anup is engaged in manufacturing/fabrication of process equipment mainly for oil refineries, petrochemical plants, fertilizer plants, and chemical plants among others. Anup's growth prospects depend on new and maintenance capex budgets of entities engaged in these industries. 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 ₹1,18,500 crore for oil and gas companies in FY25, an 11% increase over the budgeted estimate for FY24. This is likely to benefit engineering and engineering, procurement and construction (EPC) companies operating in the oil and gas industry. The management expects more opportunities from blue hydrogen especially from the western part of the world. The share of petrochemical production is expected to increase with evolution of new technologies, especially in crude and chemicals.

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, healthy cash-flow from operations of ₹168 crore in FY24 (FY23: ₹31 crore) and cash and liquid investments of around ₹168 crore as on March 31, 2024 (₹40 crore to be utilised for dividend payment and ₹30-35 crore toward acquisition of MEPL). Moreover, the utilisation of its non-fund-based limits stood at around 76% for the past 12 months ending April 2024. Anup's envisaged cash accruals, unutilised fund based working capital limits, and its existing liquidity are sufficient to meet its capex and incremental working capital requirements. Anup's liquidity is expected to remain strong backed by its healthy cash accruals and access to unutilised limits in the medium term. Additionally, existing low leverage also provides sufficient headroom to borrow.

Key weaknesses

Moderate scale of operations

Despite growth in TOI, the company's scale of operations remained moderate relative to other capital good industry players due to its limited product offerings. Capacity constraint at its manufacturing facility (inability to handle equipment with weight more than 200 tons) had also restricted its scale of operations till FY23. The new manufacturing facility has the capacity to handle equipment with maximum weight of 800 tons to 1,000 tons thereby enabling growth in scale of operation by handling large size equipment and export orders more efficiently. Further, MEPL's acquisition complement Anup's existing product portfolio and aid in geographical diversification apart from providing additional capacities.

Working capital intensive nature of operations

Anup's operating cycle improved to 164 days in FY24 (181 days in FY23) mainly supported by improvement in its collection period to 91 days in FY24 (FY23: 120 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 to protect itself from raw material price volatility. At any point of time, Anup holds inventory of around 30% of the outstanding order-book. All 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 financial bank guarantee (BG) furnished by Anup. Anup's customer advances increased to ₹151 crore as on March 31, 2024 (₹72 crore as on March 31, 2023) largely owing to rise in export orders as export orders entail around 40% advances as compared to advances of around 25-30% for domestic orders. 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.

Concentration of order book towards few products and end-user industry

Of the total unexecuted order with Anup as on March 31, 2024, 67% were for manufacturing heat exchangers and 12% were for manufacturing pressure vessels (PY: 77% for heat exchangers and 15% for pressure vessels), which reflects product concentration. However, these products are not standardised and are manufactured according to the specific customer requirement. Further, its order book is also moderately concentrated in terms of end-user industry of its products as nearly 58% of unexecuted orders are from oil refining and petrochemical industry. Any significant downturn in capex cycle of the refining industry may restrict order-inflow for the company. Cyclicity in terms of project investments by these industries may impact Anup in case of concentration of end-user industries. However, Anup has diversified its orderbook with increase in share from exports and hydrogen segment.

Susceptible to volatile raw material prices

Metal (mild steel and stainless-steel) sheets, plates, tubes, pipes, and other components are basic raw materials used by Anup for fabrication of process equipment. Inherent volatility in their prices could impact Anup's profitability as orders generally don't contain price escalation clause. Prices are driven primarily by the existing demand and supply conditions with strong linkages to the global market. This results into risk of price fluctuations on the inventory of raw materials and finished goods. However, Anup generally undertakes back-to-back arrangement for booking of raw materials against its orders, which mitigates raw material price fluctuation risk to large extent. However, Anup is exposed to volatility in raw material price between 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 and targets Zero waste. The company has an effluent waste treatment to put waste to re-use and manage its waste efficiently. ▪ The quality and environment practices of the company follow ISO 9001:2015 and ISO 14001:2015 standards. ▪ Anup has one mega-watt (MW) rooftop solar plant at its Ahmedabad facility, which together with its windmill of 750 Kilo-watt, generates around 60% of its total power requirement in form of renewable energy. Anup has also plan to install rooftop solar plant at its Kheda facility.
Social	▪ Anup has implemented Corporate Social Responsibility (CSR) policy and undertakes initiatives such as crop protection initiative, farmers skill training, supports a pat6hology lab among others. Anup spent around ₹1.33 crore towards CSR activities in FY24. ▪ The company regularly plans training for the employees & workers. Moreover, Anup follows ISO 45001:2018 requirements of an occupational health and safety management system.
Governance	▪ Being a listed company, it complies with all regulatory requirements for disclosures. ▪ The company has all required committees in place such as as Audit Committee, Nomination and Remuneration Committee, Stakeholders' Relationship Committee, Corporate Social Responsibility Committee and Risk Management Committee among others. ▪ 50% of directors in its board constitute independent directors.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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 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 42.74% as on March 31, 2024.

Brief Financials (₹ crore) – Standalone	March 31, 2023 (A)	March 31, 2024 (Ab.)
Total operating income	411.34	550.40
PBILDT	83.98	128.43
PAT	51.43	103.48
Overall gearing (times)	0.29	0.36
Interest coverage (times)	32.79	34.43

Post the merger of the only subsidiary; AHEL with Anup with effect from April 01, 2022, standalone financials of Anup for FY23 and FY24 include performance of AHEL.

A: Audited; Ab: Abridged published results; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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	-	-	-	-	80.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	10-07-2027	19.27	CARE A+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	215.00	CARE A+; Stable/ CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	340.00	CARE A+; Stable/ CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	-	40.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	15.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ ST	215.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (24-Jan-24) 2)CARE A+; Stable / CARE A1+ (05-Jul-23)	1)CARE A+; Stable / CARE A1+ (07-Jul-22)	1)CARE A+; Stable / CARE A1+ (28-Jul-21)
2	Fund-based - LT-Cash Credit	LT	80.00	CARE A+; Stable	-	1)CARE A+; Stable (24-Jan-24) 2)CARE A+; Stable (05-Jul-23)	1)CARE A+; Stable (07-Jul-22)	1)CARE A+; Stable (28-Jul-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ ST	340.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (24-Jan-24) 2)CARE A+; Stable / CARE A1+ (05-Jul-23)	1)CARE A+; Stable / CARE A1+ (07-Jul-22)	1)CARE A+; Stable / CARE A1+ (28-Jul-21)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
4	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1+	-	1)CARE A1+ (24-Jan-24) 2)CARE A1+ (05-Jul-23)	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (28-Jul-21)
5	Non-fund-based - ST-Forward Contract	ST	40.00	CARE A1+	-	1)CARE A1+ (24-Jan-24) 2)CARE A1+ (05-Jul-23)	1)CARE A1+ (07-Jul-22)	1)CARE A1+ (28-Jul-21)
6	Fund-based - LT-Term Loan	LT	19.27	CARE A+; Stable	-	1)CARE A+; Stable (24-Jan-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term 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-Forward Contract	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Mabel Engineering Private Limited*	Full consolidation	Operational linkages

*with effect from Q1FY25

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

For the detailed Rationale Report and subscription information, please visit www.careedge.in