The Anup Engineering Limited

July 28, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	15.00	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Long-term/ Short-term Bank Facilities	214.00 (Reduced from Rs.220.00)	**CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)**	Reaffirmed
Short Term Bank Facilities	31.00 (Enhanced from Rs.25.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**260.00 (Rupees Two Hundred Sixty Crore Only)**		

Details of Instrument/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Anup Engineering Limited (Anup) continue to derive strength from its experienced promoters, its established track record in the critical process equipment industry along with its reputed clientele and moderate order-book which provides adequate revenue visibility. The ratings also continue to factor its strong financial risk profile marked by low leverage, comfortable debt coverage indicators, healthy profitability and strong liquidity.

The above rating strengths, however, continue to remain constrained by Anup's moderate scale of operations, 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

- Increase in its total operating income (TOI) to around Rs.800 crore through greater diversification of its revenue stream with PBILDT margin in excess of 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

- 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
- Any large and 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-; Negative/ CARE A1+). Mr. Rishi Roop Kapoor, CEO of Anup, is a metallurgist from IIT Roorkee and holds Masters degree in marketing management. He has an experience of more than two decades in the process equipment industry and was instrumental in turning around the business 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 Ltd. (EIL), Jacob H&G Ltd., UHDE India Ltd., 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).*

Reputed clientele: 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 Heat Transfer B.V, Netherlands. Anup has established relationship with reputed

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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; Stable/ CARE A1+), etc. Most of Anup's clientele enjoy healthy financial risk profile thereby reducing counterparty credit risk.

Adequate revenue visibility: Anup's unexecuted order-book stood at Rs.256 crore as on March 31, 2021 (unexecuted order-book of Rs.267 crore as on March 31, 2020) providing revenue visibility of around 1 year. The order-execution of Anup tends to remain skewed towards Q4 of the financial year. During Q4FY21, Anup executed orders of around Rs.132 crore (order execution of around Rs.70 crore during Q4FY20) which led to some decline in unexecuted order-book as of end-FY21. The order-book is expected to scale up during H1FY22.

Healthy profitability and return indicators: Anup's profitability marked by PBILDT and PAT grew at a Compounded Annual Growth Rate (CAGR) of 12% and 17% respectively during last five years ended FY21 due to increase in its scale of operations and healthy profitability margins. Anup's PBILDT margin remained at 25.90% during FY21 as against 29.36% during FY20. The moderation in PBILDT margin during the year was on account of sharp increase in raw material prices. Since then, the company has put in place the lower quotation validity period, further reducing risk to its profitability due to volatility in the raw material pricing. Prudent risk management policies of the company are expected to keep its PBILDT margin healthy at around 24-25% during next two years ended FY23. Anup also has a 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' (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) stood healthy at around 18% during FY21 (around 20% during FY20). Anup had purchased land for around Rs.33 crore during FY18, recognised licenses of around Rs.35 crore during FY19 in its books of accounts and mantained liquidity of around Rs.40 crore to Rs.50 crore during last three years ended FY20 (either in the form of inter-corporate deposits or as an investment in liquid/debt mutual funds). Further, it incurred capex of around Rs.40 crore during FY21 which was put to use from September 2020. All these factors led to some moderation in its total ROCE while its core business ROCE continued to remain strong. CARE expects Anup's return indicator to continue to remain healthy in near to 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 0.21x (considering letter of credit backed creditors and mobilization advances as part of debt) as on March 31, 2021 (0.24x as on March 31, 2020) 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, 2021. Anup has envisaged to fund its capex of around Rs.160 crore for setting up new manufacturing facility to be undertaken during next three years entirely through its internal accruals. Hence, Anup's leverage is expected to remain low going forward. Further, its debt coverage indicators are also expected to remain strong on account of its healthy profitability.

Key Rating Weaknesses
Moderate scale of operations: Anup's scale of operations marked by its TOI grew by around 14% during FY21 over FY20, albeit it remained moderate at around Rs.282 crore. Capacity constraint at its existing manufacturing facility has restricted growth in its scale of operations in the last few years. Anup has expanded its capacity in its existing manufacturing facility during FY21 which shall support growth in scale of operations to certain extent on a standalone basis. However, the scale of operation of Anup is envisaged to remain moderate in near term when compared with other diversified and larger engineering and capital goods players. Post commissioning of new manufacturing facility at Kheda, near Ahmedabad, may enhance its execution capabilities with expectation of diversification in product profile and end-user industry which could be a catalyst for sustainable growth in its scale of operations.
Working capital intensive nature of operations; however, supported by customer advances: Anup's operating cycle stood at 224 days during FY21 (239 days during FY20) mainly due to large inventory holding. 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. Raw-material constitutes around 40% to 45% of its total cost of the production. Hence, at any point of time, Anup holds inventory of around 30% to 50% of the outstanding order-book. Moreover, all the inventories are mapped to the specific orders thereby reducing salability risk.
Anup also receives interest free advances from its customers which keep 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 Rs.56.88 crore as on March 31, 2020 and Rs.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 very 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: Out of total unexecuted order with Anup as on March 31, 2021, 70% were for manufacturing of heat exchangers and 22% were for manufacturing of pressure vessels (similar product profile of the order-book as on March 31, 2020) which reflects product concentration. However, these products are not standardised 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 of its products as more than 50% 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.

Large size planned capex expected to restrict its free cash flow in the medium term: Anup has planned capex of around Rs.160 crore during next three years ended FY24 for setting up new manufacturing facility at Kheda under its wholly owned subsidiary, Anup Heavy Engineering Limited (AHEL). The proposed capex is expected to be funded entirely through internal accruals which includes envisaged cash accruals and deployment of its liquid surplus. Any unexpected decline in profitability or elongation of the working capital cycle may restrict timely implementation of capex along with impacting financial flexibility of the company. Earlier, the capex was envisaged under Anup, however, the management of Anup decided to undertake the project under its subsidiary to avail the benefit of lower income tax rate applicable in a newly set-up 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 the company's profitability. However, Anup has back to back arrangement for booking of raw materials against its orders which mitigates the raw material price fluctuation risk to some extent.

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 around Rs.60 crore during FY21, cash and cash equivalent of around Rs.22 crore as on March 31, 2021 and no term-debt repayment liability during near to medium term. Furthermore, Anup's envisaged cash accruals along with its existing liquidity are sufficient to meet its capex and incremental working capital requirement. Anup also distributed surplus funds to equity shareholders by way of share buyback during FY21 (FY; refers to period April 1 to March 31), though it did not have any material impact on its liquidity.

Analytical approach: Standalone

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]
[CARE's methodology for 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 holding 43.26% equity stake as on June 30, 2021.

Brief Financials - (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	248.71	282.11
PBILDT	73.02	73.06
PAT	42.97	53.76
GCA	54.40	63.98
Overall Gearing (times) (including mobilization advance as debt) *	0.24	0.21
PBILDT Interest coverage (times)	38.10	47.09

*A: Audited, * Mobilization advance availed by furnishing financial bank guarantee*

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please Refer Annexure 2
Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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	-	-	-	104.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	29.00	CARE A1+
Fund-based - ST-Working Capital Demand loan	-	-	-	2.00	CARE A1+

**Long-term/Short-term*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based/Non-fund-based-LT/ST	LT/ST*	110.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (12-Aug-20)	1)CARE A+; Stable / CARE A1+ (20-Sep-19)	1)CARE A+; Stable / CARE A1+ (11-Dec-18)
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE A+; Stable	-	1)CARE A+; Stable (12-Aug-20)	1)CARE A+; Stable (20-Sep-19)	1)CARE A+; Stable (11-Dec-18)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	104.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (12-Aug-20)	1)CARE A+; Stable / CARE A1+ (20-Sep-19)	1)CARE A+; Stable / CARE A1+ (11-Dec-18)
4.	Non-fund-based - ST-Letter of credit	ST	29.00	CARE A1+	-	1)CARE A1+ (12-Aug-20)	1)CARE A1+ (20-Sep-19)	1)CARE A1+ (11-Dec-18)
5.	Fund-based - ST-Working Capital Demand loan	ST	2.00	CARE A1+	-	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 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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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