The Anup Engineering Limited

August 12, 2020

Ratings

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

Details of instruments/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 and it being part of the Arvind group, its established track record in the critical process equipment industry along with its reputed clientele across multiple end-user industries and its growing order-book which provides adequate revenue visibility. The ratings also continue to factor its healthy profitability and return indicators; albeit return indicators witnessed moderation during FY19 and FY20 (refers to period April 1 to March 31), low leverage and strong liquidity. CARE also notes that the company has not availed any moratorium as a Covid relief measure under the guidelines of RBI for the interest payment or principal repayment on its existing bank facilities which also indicates its strong liquidity profile.

The above rating strengths, however, continue to remain constrained by Anup's moderate scale of operations, elongation in its operating cycle due to higher inventory holding period 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 to around Rs.800 crore through greater diversification of its revenue stream while maintaining 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.
- Inability to reduce its gross operating cycle to around 250 days on a sustained basis along with adverse impact on its liquidity.
- Any large-size debt funded capex 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's Board is also the Chairman & Managing Director of Arvind Limited (Arvind; rated: CARE AA-; Negative/ CARE A1+). Promoters of Arvind held 41.70% equity stake in Anup as on June 30, 2020.

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. He has been with associated with Anup since 2010. 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

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

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 across multiple end user industries: 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 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 Ltd. (rated: CARE AAA; Stable/ CARE A1+), HPCL- Mittal Energy Limited, Toyo Engineering Limited (rated: CARE A+; Stable/ CARE A1+), Linde Engineering India Pvt. Ltd, Indian Farmers Fertilizer Co-operative Limited, etc. Most of Anup's clientele enjoy healthy financial risk profile thereby reducing counterparty credit risk.

Growing order-book: Anup's order-book increased to Rs.351 crore as on May 31, 2020 compared with Rs.325 crore as on June 30, 2019. Further, as informed by the management, Anup's order-book has increased to Rs.377 crore as on June 30, 2020. Anup's growing order-book provides revenue visibility of around 16 to 18 months. Further, Anup's order-book (as on June 30 of each year) to net-sales (preceding year) ratio also grew to 1.58 times during FY20 from 1.40 times during FY19.

Healthy profitability, low leverage and strong debt coverage indicators: Anup's profitability marked by PBILDT and PAT grew at a Compounded Annual Growth Rate (CAGR) of 18% during last five years ended FY20 due to increase in its scale of operations and healthy profitability margins. Anup's PBILDT margin and PAT margin remained at 29.36% and 17.28% respectively during FY20 (as against 28.34% and 16.90% during FY19). Anup's healthy profitability margins are due to its technical expertise and specialized products like 'Helixchanger' which offer significant benefits over conventional heat exchangers. It also has strict control over its overheads coupled with efficient management of order book and product mix.

Anup's leverage remains low marked by overall gearing ratio of 0.24 times (considering creditors backed by letter of credit and mobilization advances availed by furnishing bank guarantees as part of total debt) as on March 31, 2020 (0.25 times as on March 31, 2019) on account of low reliance on external borrowings. Anup did not have any long-term debt or fund-based working capital bank borrowing outstanding as on March 31, 2020. Anup has envisaged to fund its capex of around Rs.200 crore to be undertaken during next three years entirely through its internal accruals. Anup's existing liquid surplus along with its healthy annual cash accruals are expected to be sufficient to meet its capex requirement. 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.

Healthy return indicators despite moderation in past two years: The return on Anup's core assets employed remained healthy at around 25% during FY20 on the back of its healthy operating profitability. However, its return indicators i.e. return on capital employed (ROCE) and return on Net-worth (RONW) have exhibited some moderation during last two years and remained at 20.06% and 15.50% respectively during FY20. Apart from Anup's increased working capital requirement, it acquired land of around Rs.33 crore during FY19 to set up a new manufacturing facility which does not generate any return presently. It also recognised intangible asset of Rs.35 crore with effect from January 2018 on account of de-merger and subsequent amalgamation with group entity. Further, Anup's inter-corporate deposits (ICDs) extended to Arvind remained around Rs.40 crore to Rs.50 crore during FY17 to FY18 which yielded around 7% to 9% per annum. Subsequently, Anup recouped its entire ICDs extended to Arvind during FY20 and the same was invested in debt/liquid mutual funds, which yielded a return of around 4% to 6% per annum. All these factors led to moderation in the overall return indicators of Anup. Anup's inability to generate adequate returns from its planned large capital investment of around Rs.200 crore over the next three years towards its new manufacturing facility would be a negative rating sensitivity.

Key Rating Weaknesses

Moderate scale of operations: Anup's scale of operations marked by its total operating income (TOI) of Rs.248 crore during FY20, remained stable on Y-o-Y basis. However, net sales of its core operations grew by 14% on Y-o-Y basis (excluding trading sales of Rs.22 crore from the total sales of FY19). Capacity constraint at its existing manufacturing facility has restricted growth in its scale of operations in the last few years. Anup's scale of operations has remained moderate in comparison to many larger players in the capital goods industry. However, Anup has recently concluded expansion of heavy bay at its existing manufacturing facility and it is also setting up a new manufacturing facility at Kheda, near Ahmedabad which may enhance its execution capabilities. Anup's increasing execution capabilities along with product and end-user industry diversification will be a catalyst for sustainable growth in its scale of operations in the near to medium term.

Elongation in the operating cycle; however supported by customer advances: Anup's operating cycle has exhibited an elongating trend from 107 days during FY18 to 239 days during FY20 mainly on account of increase in its inventory holding period from 64 days during FY18 to 207 days during FY20. Anup's management has articulated about adopting 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% of the total cost of the products. Hence, at any period 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 borrowing requirement low. These customer advances are against the financial bank guarantee furnished by Anup. Anup's net working capital (excluding liquid investments from current assets) increased to Rs.108 crore during FY20 from Rs.81 crore during FY19 despite sizable elongation in the operating cycle as majority of the incremental investment in current assets were funded through customer advances. Anup had customer advance of Rs.7.28 crore as on March 31, 2018 which increased to Rs.56.88 crore as on March 31, 2020. Anup also needs to submit performance BG to its customers for release of retention money.

Concentration of order-book towards few products and end-user industry: Out of total unexecuted order with Anup as on March 31, 2020, 72% were for manufacturing of heat exchangers and 22% were for manufacturing of pressure vessels (similar product profile of the order-book as on June 30, 2020) which denotes product concentration. However, these products are not standardized and are manufactured according to the specific requirement of the client. Further, its order-book is also moderately concentrated in terms of end-user industry of its products as 46% of all the unexecuted orders are from the refining industry. Any significant downturn in the capex cycle of the refining industry may restrict the 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.200 crore during next three years for setting up new manufacturing facility at Kheda. The proposed capex is expected to be funded entirely through internal accruals which includes envisaged cash accruals and deployment of its liquid surplus. However, deployment of most of envisaged cash accruals for the capex may hinder its ability to fund its incremental working capital requirement emanating from incremental sales. Any unexpected declined in profitability or elongation of the working capital cycle may restrict timely implementation of capex along with impacting financial flexibility of the company.

Susceptible to volatile raw material prices and foreign exchange fluctuation: 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. Further, Anup is a net exporter and is exposed to adverse fluctuation in foreign currency exchange rates which it partially mitigates through hedging in forward market. Anup sources part of its raw material requirements from international markets (around 18% of total material consumed during FY20 against 30% during FY19). Exports on the other side was 12% of total gross sales during FY20 as against 29% in FY19.

Liquidity: Strong
Despite its large working capital requirement, Anup's liquidity remains strong marked by less than 10% utilization of its fund based working capital limits, healthy cash-flow from operations of around Rs.34 crore during FY20, cash and cash equivalent of around Rs.70 crore as on June 30, 2020 and no term-debt repayment liability during near to medium term. Further, Anup has not availed any moratorium as a Covid-19 relief measure under the guidelines of RBI towards the interest payment or principal repayment on its existing bank facilities. Furthermore, Anup's envisaged cash accruals along with its existing liquidity are sufficient to meet its capex requirement.

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
Rating Methodology: Consolidation and Factoring Linkages in Ratings
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 41.70% equity stake as on June 30, 2020.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	248.47	248.71
PBILDT	70.43	73.02
PAT	41.99	42.97
GCA	51.80	54.40
Overall Gearing (times) (including mobilization advance as debt) *	0.25	0.24
Interest coverage (times)	25.59	38.10

A – Audited; as per the abridged audited results published on the stock exchange website

** Mobilization advance availed by furnishing financial bank guarantee*

As per Q1FY21 (un-audited) results, Anup earned total income of Rs.30.95 crore with PBILDT and PAT margin of 29.47% and 16.80% respectively compared with total income of Rs.38.05 crore with PBILDT and PAT margin of 34.56% and 20.87% respectively reported during Q1FY20 (un-audited).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

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	-	-	-	110.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A1+
Fund-based - ST-Working Capital Demand loan	-	-	-	10.00	CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	110.00	CARE A+; Stable/ CARE A1+	1)CARE A+; Stable/ CARE A1+ (20-Sep-19)	1)CARE A+; Stable/ CARE A1+ (11-Dec-18)	1)CARE A+; Stable/ CARE A1+ (25-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE A+; Stable	1)CARE A+; Stable (20-Sep-19)	1)CARE A+; Stable (11-Dec-18)	1)CARE A+; Stable (25-Sep-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	110.00	CARE A+; Stable/ CARE A1+	1)CARE A+; Stable/ CARE A1+ (20-Sep-19)	1)CARE A+; Stable/ CARE A1+ (11-Dec-18)	1)CARE A+; Stable/ CARE A1+ (25-Sep-17)
4.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1+	1)CARE A1+ (20-Sep-19)	1)CARE A1+ (11-Dec-18)	1)CARE A1+ (25-Sep-17)
5.	Fund-based - ST-Working Capital Demand loan	ST	10.00	CARE A1+	1)CARE A1+ (20-Sep-19)	-	-

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

Annexure 4: Complexity level of various instruments rated for this company

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