The Anup Engineering Limited

September 20, 2019

Rating

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 (Enhanced from Rs.15.00 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	220.00 (Enhanced from Rs.170.00 crore)	**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 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 wide experience and established track record in the critical process equipment industry with reputed clientele across multiple end-user industries and growth in order-book which provides good revenue visibility. The ratings also continue to factor in its comfortable financial risk profile marked by healthy profitability and return indicators, low leverage and strong liquidity. The ratings are also underpinned by Anup being part of the Arvind group whose flagship company is Arvind Limited (Arvind).

The above rating strengths are, however, constrained by Anup's moderate scale of operations, its high working capital requirement, concentration of its revenue and order-book towards few products and ongoing large size capex plan which is likely to restrict its free cash flow in the medium term.

The ability of Anup to significantly increase its scale of operations through greater diversification of its revenue profile while ensuring effective working capital management along with increase in flow of new orders so as to generate adequate returns on the ongoing capex while maintain its healthy leverage and debt coverage indicators would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record in the process equipment industry having established relationship with reputed clientele: Anup has track record of more than five decades in the business of design and fabrication of process equipment and engineering goods. Mr. Sanjay Lalbhai, the CMD at Arvind is also the Chairman at Anup. Mr. Rishi Roop Kapoor, CEO is heading the helm of affairs at Anup and has an experience of over two decades. He has been associated with the Process Equipment business for over 23 years in diverse assignments ranging from manufacturing to project management to sales & marketing. He has been with Anup since 2010.

Part of Arvind group: As on March 31, 2018, Arvind held 93.53% equity share capital in Anup. However, as per the composite scheme of arrangement sanctioned by the National Company Law Tribunal (NCLT) on November 30, 2018, Anup and engineering undertaking of Arvind was amalgamated with Anveshan Heavy Engineering Limited (AHEL) with effect from January 01, 2018. Engineering undertaking of Arvind and AHEL did not have any significant operations. After the amalgamation, name of AHEL was changed to Anup. Anup is no longer a subsidiary company of Arvind, however, Anup continues to have linkages with Arvind group as promoters of Arvind held around 41.72% equity stake in Anup as on June 30, 2019. Mr. Sanjay Lalbhai (Chairman of Arvind) and Mr. Punit Lalbhai (Executive Director of Arvind) are also Non-executive directors in Anup.

Diversified and 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 its 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. Most of Anup's clientele enjoy healthy financial risk profile thereby reducing counterparty credit risk.

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

Growth in order-book: Anup's order book has witnessed a healthy improvement of 94% Y-o-Y from Rs. 155 Cr as on FY18 to Rs. 300 Cr in FY19. Book-to-bill ratio has increased from 0.6x in FY18 to 1.2x in FY19 thus providing good revenue visibility in near to medium term.

Healthy profitability, low leverage and strong return and debt coverage indicators: Anup's profitability margins remained healthy marked by PBILDT margin and PAT margin of 28.34% and 16.90% respectively during FY19 (FY; refer to period April 1 to March 31). On an absolute basis, the PBILDT & PAT grew at CAGR of 19.68% and 21.47% respectively during last three years ended FY19. Absence of term debt liability and low reliance on bank borrowings led to very comfortable capital structure marked by overall gearing ratio of 0.09 times as on March 31, 2019. Further, Anup is expected to fund its planned capex through internal accruals and hence, the capital structure is expected to remain comfortable. Further, low leverage and healthy profitability led to strong debt coverage indicators. Moreover, Anup's capital return indicators also remained healthy marked by return on capital employed (ROCE) and return on net-worth (RONW) of 23.16% and 18.13% respectively during FY19.

Key Rating Weaknesses

Moderate scale of operations along with limited product offering: Anup's total operating income (TOI) grew at CAGR of around 16% during last four years ended FY19 and grew by 10% during FY19 over FY18. Despite healthy growth in TOI, Anup's scale of operations remained moderate in comparison to many larger players in the capital goods industry as reflected by its TOI of Rs.248 crore during FY19. Further, more than 95% of Anup's unexecuted order-book is for supply of heat exchangers and pressure vessels mainly to be deployed in refineries and petrochemical plants. Anup's ability to cater to the requirements of large sized heat exchange and other high value products is constrained by moderate size of its fabrication facility. However, Anup is expanding its existing manufacturing facility and plans to set-up new the manufacturing facility aimed at increasing its scale of operations and diversifying its product portfolio. Significant increase in its scale of operations through greater diversification of revenue profile would be a key rating sensitivity.

High working capital requirement; however supported by customer advances: Working capital cycle of Anup elongated to 150 days during FY19 due to increase in the inventory holding period from 64 days during FY18 to 133 days during FY19. Anup had un-executed order-book of Rs.300 crore as on April 01, 2019 which are likely to be executed in the next four quarters. To support the growth in its order-book, Anup had large raw material inventory as on March 31, 2019 as it generally has a policy of procuring raw material on the receipt of order from customers to protect itself from volatility in the raw material prices. Anup also receives advance from the customer (non-interest bearing) to the extent of 15-20% at the time of receipt of order, which supports the working capital requirement. Moreover, Anup requires large non fund based limits in the form of performance and financial bank guarantees (BG). Anup needs to submit performance BG to its customers for release of retention money.

Large size capital investment plans expected to restrict the free cash flow and return indicators in the medium term: Anup is envisaged to incur a capex of around Rs.165 crore (excluding cost of land which was acquired during FY19) during next 3 years for expanding its existing manufacturing facility and setting up new manufacturing facility near Ahmedabad. The capex is being funded entirely through internal accruals including existing liquid investment (ICDs placed with Arvind) and generation of future cash accruals during next three years. However, deployment of most of the internal accruals for capex may restrict its ability to fund additional working capital requirement due to growing scale of operations. Further, any delay in the order execution or lower than envisaged cash accruals may adversely impact the capex implementation schedule/lead to some reliance on debt and in turn impact the envisaged return on the ongoing capex.

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 30% of total material consumed during FY19 against 8% during FY18)*. Exports on the other side was 29% of total gross sales during FY19.

Liquidity Analysis: Anup's liquidity remains healthy marked by current ratio and quick ratio of 1.73 times and 0.87 times respectively as on March 31, 2019. Utilization of fund based working capital limits also remained low at around 28% during trailing 12 months ended June 2019 providing adequate cushion to its liquidity. Despite elongation in working capital cycle due to increase in raw material inventory holding, Anup's cash flow from operations remained healthy at Rs.54 crore during FY19 due to receipt of advances from customers. Anup also had surplus liquid investment of Rs.44 crore as on March 31, 2019 which it has placed with Arvind in the form of interest bearing inter-corporate deposit, which also provides it with liquidity cushion in case of any exigency. Anup's management has articulated their plans to utilize this money towards their ongoing capex. Further, it did not have any term debt repayment obligation as on March 31, 2019.

Analytical approach: Consolidated: Standalone

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's methodology for manufacturing companies]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial Ratios – Non-Financial Sector]

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 41.72% equity stake as on June 30, 2019.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	226.63	248.47
PBILDT	58.00	70.43
PAT	42.65	41.99
GCA	38.89	51.80
Overall Gearing (times) (Including Acceptance on LC)	0.03	0.09
Interest coverage (times)	63.90	25.59

A: Audited
As per Q1FY20 (un-audited) results published by Anup, it earned total operating income of Rs.38.05 crore with PBILDT and PAT margin of 34% and 21% respectively.

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	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	110.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (11-Dec-18)	1)CARE A+; Stable / CARE A1+ (25-Sep-17)	1)CARE A1+ (12-Aug-16)
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE A+; Stable	-	1)CARE A+; Stable (11-Dec-18)	1)CARE A+; Stable (25-Sep-17)	1)CARE A+ (12-Aug-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	110.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (11-Dec-18)	1)CARE A+; Stable / CARE A1+ (25-Sep-17)	1)CARE A+ (12-Aug-16)
4.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1+	-	1)CARE A1+ (11-Dec-18)	1)CARE A1+ (25-Sep-17)	1)CARE A1+ (12-Aug-16)
5.	Fund-based - ST-Working Capital Demand loan	ST	10.00	CARE A1+	-	-	-	-

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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