

# The Anup Engineering (THEANU)

CMP: ₹ 808

Target: ₹ 1070 (32%)

Target Period: 12 months

BUY

May 18, 2022

## Decent execution amid challenging environment...

**About the stock:** Anup Engineering is one of the leading process equipment manufacturers with special focus on heat exchangers.

- The company has a facility in Odhav, Gujarat and is currently in the process of making a greenfield expansion in Kheda
- The company aims to achieve a topline target of ₹ 1000 crore by 2026

**Q4FY22 Results:** Anup reported decent Q4FY22 results.

- Revenue for the quarter was at ₹ 100 crore, up 111.8% QoQ, down 24.7% YoY
- EBIDTA margins contracted ~294 bps YoY & expanded ~85 bps QoQ, at 23.8%. Absolute EBIDTA came in at ₹ 23.8 crore, up 119.6% QoQ
- Ensuing PAT came in at ₹ 32.4 crore, due to tax reversals

**What should investors do?** Anup Engineering is on the cusp of entering into a new trajectory led by new products and strong growth in topline.

- We maintain **BUY** rating on the stock.

**Target Price and Valuation:** We value Anup at ₹ 1070 i.e. 15x P/E on FY24E EPS.

**Key triggers for future price performance:**

- Upcoming clean room facility at Odhav expanding Anup's reach into exotic metallurgy
- Timely commercialisation of Kheda capex ensuring sustained growth
- Exploring opportunities in nuclear, space and defence segment

**Alternate Stock Idea:** Apart from Anup Engineering, in our capital goods coverage we also like NRB Bearings.

- It offers a play on needle roller bearings, which are largely used in auto applications
- BUY with a target price of ₹ 220 per share



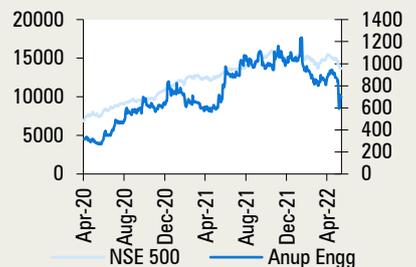
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	802
Total Debt (FY22) (₹ crore)	0
Cash and Inv (FY22) (₹ crore)	66
EV (FY22) (₹ crore)	736
52 week H/L (₹) (BSE)	1236 / 635
Equity capital (₹ crore)	9.8
Face value (₹)	10.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	43.2%	43.1%	43.0%	43.0%
FII	2.1%	2.1%	2.1%	1.8%
DII	11.3%	12.1%	13.1%	13.2%
Others	43.5%	42.7%	41.7%	41.9%

### Price Chart



### Recent event & key risks

- Completion of Odhav Capacity
- Key Risk:** (i) Commodity inflation, (ii) Subdued Exports

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### Key Financial Summary

	2020	2021	CAGR	2022E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	279.1	288.2	5.9	381.5	463.0	26.7
EBITDA	68.8	70.0	3.1	81.3	110.1	25.4
EBITDA margin (%)	24.7	24.3		21.3	23.8	
PBT	61.7	61.1	1.3	70.2	95.6	25.1
Net Profit	53.8	62.1	13.9	52.0	70.8	6.8
EPS (₹)	54.7	62.7		52.5	71.5	
P/E (x)	14.8	12.9		15.4	11.3	
EV/EBITDA (x)	11.2	10.5		9.1	7.2	
RoCE (%)	17.7	15.3		17.6	19.0	
RoE (%)	15.9	15.8		13.2	14.1	

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Decent execution amid challenging environment...

- Revenue for the quarter came in at ₹ 100 crore, down 24.7% YoY and up 111.8% QoQ due to decent performance in all segments on back of securing in tune of ₹ 210 crore
- Anup Engineering registered an EBITDA margin of 23.8% vs. 22.9% QoQ and 26.7% YoY. Absolute EBITDA came in at ₹ 23.8 crore vs. ₹ 10.8 crore in the last quarter and ₹ 35.5 crore in the same quarter last year. Reducing EBITDA margins YoY are due to expensive raw material prices
- Tracking its operating performance, Anup ended the quarter with a PAT of ₹ 32.4 crore vs. ₹ 27.6 crore in Q4FY21. Increased PAT is due to reversal of provisional taxes related to earlier year

### Q4FY22 Earnings Conference Call highlights

- The company has given a revenue guidance of ₹ 380-400 for FY23E and revenue to grow at a CAGR of 30% for the coming three to four years
- There will be pressure on EBITDA margins. In FY23E, margins are expected to be in the range of 21-21.5%. From FY24E, they are expected to be back at normal level of 24-25%. Impact on EBITDA margins was due to a sharp rise in raw material costs
- The company is looking to release more advance version of current product offerings that will attract new customers and increase product portfolio
- Anup was hit during H1FY22 due to Covid, lack of manpower and supply chain issues that also resulted in subdued H2FY22. Those customers whose orders got delayed refused to take the orders. Thus, this resulted in chaos. Now orders are delivered on or before time
- Diversification is high on the agenda with the company looking to enter into nuclear, space and defence segment with the help of the Odhav plant. The company will also focus on global markets
- Current order book is at ₹ 393.3 crore with highest ever order booking during last year at ₹ 437 crore. Current order book is very diversified, with strong order book pipeline in refining, petrochemical and paper segment. The company also added new customers from South America, Europe & Middle East. Order bifurcation 89% domestic and 11% exports
- Capex for Odhav plant has been done and is all set to be operational in Q2FY23, Capex for Kheda plant will be done in three phases and will cost around ₹ 275 crore. It will be done in three to four years. Capex for FY22 was ₹ 40 crore and for FY23E is expected to be in the range of ₹ 85 crore

**Exhibit 1: Variance Analysis**

Year	Q4FY22	Q3FY22	Q4FY21	YoY (%)	QoQ(%)	Comments
Income from Operation	100.0	47.2	132.8	-24.7	111.8	Decent execution due to improved contribution from all segments
Cost of materials consumed	57.6	35.6	50.3	14.4	61.5	
Purchase of stock-in-trade	0.0	0.0	0.0			
Changes in inventories	-2.5	-17.2	28.5			
Employee cost	4.7	4.7	4.3	8.3	0.0	
Other expenses	16.4	13.3	14.1	16.6	23.9	
EBITDA	23.8	10.8	35.5	-33.0	119.6	
EBITDA Margin (%)	23.8	22.9	26.7	-294 bps	85 bps	Declining Margins due to higher Raw material prices
Other Income	2.4	0.4	1.2	102.9	474.0	
Depreciation	2.9	2.9	3.3	-13.1	0.3	
Interest	0.5	0.3	0.1	630.6	66.5	
PBT	22.7	8.0	33.2	-31.6	182.8	
Taxes	-9.6	2.2	5.7	-269.0	-543.5	
PAT	32.4	5.9	27.6	17.4	450.8	

**Exhibit 2: Changes In Estimates**

₹ crore	I	Actual	Actual	FY23E	%	FY24E	
		FY21	FY22	Old	New	Change	New
Revenue		279.1	288.2	400.6	381.5	(5.0)	463.0
EBITDA		68.8	70.0	105.4	81.3	(29.7)	110.1
EBITDA Margin (%)		24.7	24.3	26.3	21.3	-500 bps	23.8
PAT		53.8	62.1	69.2	52.0	(33.1)	70.8
EPS (₹)		54.7	62.7	70.4	52.5	(34.1)	71.5

## Financial Summary

Exhibit 3: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	279	288	382	463
Total Operating Income	279	288	382	463
% Growth (Operating Income)	13.7	3.2	32.4	-
Other Income	3.7	3.8	6.0	7
<b>Total Revenue</b>	<b>282.9</b>	<b>292.0</b>	<b>387.5</b>	<b>470.0</b>
Cost of materials consumed	140	163	226	273
Purchase of stock-in-trade	-	-	-	-
Change in inventories	8	(23)	(23)	(21)
Employee cost	17	20	27	29
Other Expenses	45	58	70	72
Total expenditure	210	218	300	353
<b>EBITDA</b>	<b>68.8</b>	<b>70.0</b>	<b>81.3</b>	<b>110.1</b>
% Growth (EBITDA)	0.3	1.7	16.1	35.5
Interest	0.3	1.0	1.0	2
PBDT	72	73	86	-
Depreciation	11	12	16	19
PBT	62	61	70	96
Tax	8	(1)	18	25
<b>PAT</b>	<b>53.8</b>	<b>62.1</b>	<b>52.0</b>	<b>70.8</b>
% Growth (PAT)	25.1	15.5	(16.3)	36.1
EPS	54.7	62.7	52.5	71.5

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	9.8	9.9	9.9	9.9
Reserves & Surplus	328	384	429	491.7
<b>Total Shareholders fund</b>	<b>337</b>	<b>393</b>	<b>439</b>	<b>502</b>
Goodwill	-	-	-	-
Total debt	-	-	-	-
Other liabilities	12.6	12.0	12.0	12.0
<b>Total Liabilities</b>	<b>350</b>	<b>405</b>	<b>451</b>	<b>514</b>
Gross Block	161	253	338	423.1
Acc: Depreciation	28	39	55	74.9
Net Block	188	214	283	348.2
Capital WIP	2	15	15	16.0
Investments	1	1	1	1.2
Inventory	67	107	141	172.5
Sundry debtors	110	76	100	121.4
<b>Cash</b>	<b>24</b>	<b>66</b>	<b>23</b>	<b>5</b>
Loans & Advances	-	-	-	-
Inv+Other current assets	16	6	(4)	(14.3)
CL& Prov.	81	99	130	159.2
Net Current Assets	135	155	130	125.3
<b>Total Assets</b>	<b>350</b>	<b>405</b>	<b>451</b>	<b>514</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	54	62	52	71
Depreciation	11	12	16	19
Interest	0	1	1	2
Other income	(4)	(4)	(6)	(7)
Prov for Taxation	8	(1)	18	25
Change in Working Capital	39	22	(17)	(14)
Taxes Paid	(10)	0	(18)	(25)
<b>Cash from Operations</b>	<b>97</b>	<b>93</b>	<b>46</b>	<b>71</b>
(Purchase)/Sale of Fixed Assets	(40)	(47)	(87)	(87)
(Purchase)/Sale of Investments	1	-	-	-
Other Income	4	4	6	7
<b>Cash from Investing</b>	<b>(36)</b>	<b>(43)</b>	<b>(81)</b>	<b>(80)</b>
Changes in Networth	(32)	2	(0)	(0)
Interest	(0)	(1)	(1)	(2)
Dividend paid	(7)	(8)	(7)	(8)
<b>Cash from Fin</b>	<b>(40)</b>	<b>(7)</b>	<b>(8)</b>	<b>(10)</b>
Changes in Cash	22	42	(43)	(19)
Opening Cash/Cash Equivalent	2	24	66	23
Closing Cash/ Cash Equivalent	24	66	23	5

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per Share Data</b>				
EPS	54.7	62.7	52.5	71.5
Cash EPS	65.4	74.4	68.7	91.1
BV	343.2	397.4	397.4	506.7
DPS	7.0	8.1	6.6	8.1
Cash Per Share	28.3	39.9	56.0	75.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	24.7	24.3	21.3	23.8
PBT / Net Sales	20.9	20.3	17.1	19.6
PAT Margin	19.3	16.7	13.6	15.3
Inventory days	87.3	135.0	102.0	136.0
Debtor days	144.2	95.7	72.3	95.7
Creditor days	105.9	124.8	94.3	125.5
<b>Return Ratios (%)</b>				
RoE	15.9	12.2	13.2	14.1
RoCE	17.7	15.3	17.6	19.0
RoIC	25.4	19.6	23.2	18.8
<b>Valuation Ratios(x)</b>				
P/E	14.8	12.9	15.4	11.3
EV / EBITDA	11.2	10.5	9.1	7.2
EV / Net Sales	2.8	2.6	1.9	1.7
Market Cap / Sales	2.9	2.8	2.1	1.7
Price to Book Value	2.4	2.0	2.0	1.6
<b>Solvency Ratios</b>				
Net Debt / Equity	-	-	-	-
Current Ratio	2.2	1.8	1.8	1.8
Quick Ratio	1.4	0.8	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1607	1,930	Buy	225494	50.2	65.5	72.9	32.0	24.5	22.0	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2307	2,900	Buy	82157	29.5	36.6	48.2	78.2	63.0	47.9	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	1800	1,895	Hold	16978	56.8	59.9	67.8	31.7	30.0	26.6	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	2065	2,445	Buy	24606	27.4	42.5	48.9	75.4	48.6	42.2	12.1	17.2	18.1	9.5	13.4	13.9
KEC International (KECIN)	373	379	Hold	9590	12.7	15.8	25.3	29.4	23.6	14.8	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	154	179	Buy	3560	0.7	2.8	3.3	217.6	55.9	46.7	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	326	390	Buy	10331	5.7	6.6	8.7	57.1	49.4	37.5	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	233	250	Buy	56773	9.4	11.2	12.5	24.9	20.7	18.7	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	328	500	Buy	4315	44.0	55.6	-	7.5	5.9	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3164	3,720	Buy	15642	77.0	89.6	103.5	41.1	35.3	30.6	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	1879	2,405	Buy	14134	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	115	220	Buy	1115	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	192	290	Buy	2286	9.8	12.7	16.2	19.6	15.1	11.9	22.5	24.4	25.9	15.1	16.6	17.7

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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