

The Anup Engineering (THEANU)

CMP: ₹ 850

Target: ₹ 1080 (27%)

Target Period: 12 months

BUY

October 18, 2022

Strong execution...

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 undertaking a greenfield expansion in Kheda
- The company aims to achieve a topline target of ₹ 1000 crore by 2026

Q2FY23 Results: Anup reported good Q2FY23 results.

- Revenue for the quarter was at ₹ 100.9 crore, up 94.4% QoQ, 13.4% YoY
- EBIDTA margins contracted ~520 bps YoY & expanded ~206 bps QoQ, at 20.3%. Absolute EBIDTA came in at ₹ 20.5 crore, down 9.8% YoY
- Ensuing PAT came in at ₹ 12.9 crore, down 17.9% YoY.

What should investors do? Anup is on the cusp of entering into a new trajectory led by new products and capex, which is expected to lead to strong topline.

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

Target Price and Valuation: We value Anup at ₹ 1080 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



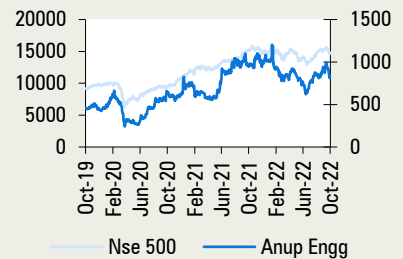
Particulars

Particular	Amount
Market Capitalization (₹ crore)	842
Total Debt (FY22) (₹ crore)	0
Cash and Inv (FY22) (₹ crore)	66
EV (FY22) (₹ crore)	776
52 week H/L (₹) (BSE)	1236 / 615
Equity capital (₹ crore)	9.8
Face value (₹)	10.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	43.0%	43.0%	43.0%	43.0%
FII	2.1%	1.8%	1.8%	1.8%
DII	13.1%	13.2%	11.6%	15.00%
Others	41.7%	41.9%	43.5%	40.2%

Price Chart



Recent event & key risks

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

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Key Financial Summary

(₹ Crore)	FY21	FY22	(FY19-22) Year CAGR	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	279.1	288.2	5.9	377.8	479.9	29.0
EBITDA	68.8	70.0	3.1	77.1	111.8	26.4
EBITDA margin (%)	24.7	24.3		20.4	23.3	
PBT	61.7	61.1	1.3	70.2	95.6	25.1
Net Profit	53.8	62.1	13.9	49.0	71.5	7.3
EPS (₹)	54.7	62.7		49.5	72.3	
P/E (x)	15.5	12.9		17.2	11.8	
EV/EBITDA (x)	11.8	10.5		10.1	7.5	
RoCE (%)	17.7	15.3		16.6	19.4	
RoE (%)	15.9	15.8		12.5	14.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Strong execution...

- Revenue for the quarter came in at ₹ 100.9 crore, up 13.4% YoY, 94.9% QoQ (last quarter was a hit due to low execution) due to better performance in all segments
- The company posted gross margins to the tune of 43% vs. 49% in Q1FY23 and 54% in Q2FY22 (lower gross margins due to higher raw material price). The company registered an EBIDTA margin of 20.3% vs. 18.2% in Q1FY23 and 25.5% in Q2FY22. Absolute EBIDTA came in at ₹ 20.5 crore vs. ₹ 9.4 crore in the last quarter and ₹ 22.7 crore in same quarter last year. Increasing EBIDTA margins QoQ are due to positive operating leverage and export orders
- Tracking its operating performance, Anup Engineering ended the quarter with a PAT of ₹ 12.9 crore vs. ₹ 17.9 crore in Q2FY22

Q2FY23 Earnings Conference Call highlights

- The company has maintained its revenue guidance of ₹ 380 crore for FY23E (₹ 225 crore for H2FY23E) with revenue set to grow at a CAGR of 25-30% for the coming three to four years led by capacity expansion of Kheda plant
- The pressure on EBITDA margins in H1FY23 is mainly due to a sharp increase in raw material prices. Margins are expected to be in the range of 20-21% for FY23E. From FY24E, they are expected to be back at normal level of 24-25%
- The company is looking to release more advance version of current product (specially heat exchangers) offerings that will attract new customers and increase product portfolio. It is focusing on increasing orders in export and exotic metallurgy segment
- Diversification is high on the agenda with the company looking to enter into nuclear, space and defence segment with the help of the Kheda plant. The company will also focus on global markets
- Current order book is at ₹ 536 crore with order booking during H1FY23 at ₹ around ₹ 291 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 80% domestic and 20% exports. Around 60% of order book is at historical margin levels, which will help in attaining 24-25% margin level in FY24E
- Capex for the 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 FY23E is expected to be in the range of ₹ 85 crore. Due to ongoing capex at Kheda and working capital requirement due to incremental volumes, the company has availed the capex loan of ₹ 25 crores from banks

Exhibit 1: Variance Analysis

Year	Q2FY23	Q1FY23	Q2FY22	YoY (%)	QoQ(%)	Comments
Income from Operation	101.0	51.8	89.1	13.4	94.9	Good execution due to decent contribution from all segments
Cost of materials consumed	57.3	45.8	42.7	34.2	25.1	
Purchase of stock-in-trade	0.0	0.0	0.0			
Changes in inventories	-0.2	-19.6	-1.4			
Employee cost	4.9	4.6	7.0	(30.0)	7.1	
Other expenses	18.5	11.6	18.1	2.5	60.3	
EBITDA	20.5	9.4	22.7	-9.8	117.0	
EBITDA Margin (%)	20.3	18.2	25.5	-520 bps	206 bps	Declining Margins YoY due to higher Raw material prices, Increasing Margins are due to positive operating leverage
Other Income	0.3	0.4	0.6	-57.5	-32.0	
Depreciation	2.9	2.9	2.9	1.3	0.1	
Interest	0.3	0.3	0.0	546.2	-20.3	
PBT	17.5	6.5	20.3	-13.8	168.0	
Taxes	4.6	1.4	4.6	0.0	234.2	
PAT	12.9	5.2	15.7	-17.9	150.5	

Source: Company, ICICI Direct Research

Exhibit 2: Changes In Estimates

	Actual	Actual	FY23E	%		FY24E	%	
₹ crore	FY21	FY22	Old	New	Change	Old	New	
Revenue	279.1	288.2	371.2	377.8	1.8	429.0	479.9	10.6
EBITDA	68.8	70.0	75.4	77.1	2.2	99.5	111.8	11.0
EBITDA Margin (%)	24.7	24.3	20.3	20.4	10 bps	23.2	23.3	10 bps
PAT	53.8	62.1	47.9	49.0	2.2	85.7	95.6	10.4
EPS (₹)	54.7	62.7	48.4	49.5	2.2	64.0	71.5	10.5

Financial Summary

Exhibit 3: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	279	288	378	480
Total Operating Income	279	288	378	480
% Growth (Operating Income)	13.7	3.2	31.1	-
Other Income	3.7	3.8	6.0	7
Total Revenue	282.9	292.0	383.8	486.9
Cost of materials consumed	140	163	229	274
Purchase of stock-in-trade	-	-	-	-
Change in inventories	8	(23)	(23)	(27)
Employee cost	17	20	26	33
Other Expenses	45	58	70	89
Total expenditure	210	218	301	368
EBITDA	68.8	70.0	77.1	111.8
% Growth (EBITDA)	0.3	1.7	10.1	45.1
Interest	0.3	1.0	1.0	2
PBDT	72	73	82	-
Depreciation	11	12	16	20
PBT	62	61	66	97
Tax	8	(1)	17	25
PAT	53.8	62.1	49.0	71.5
% Growth (PAT)	25.1	15.5	(21.1)	46.0
EPS	54.7	62.7	49.5	72.3

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	425	486
Total Shareholders fund	337	393	434	496
Goodwill	-	-	-	-
Total debt	-	-	-	-
Other liabilities	12.6	12.0	12.0	12.0
Total Liabilities	350	405	446	508
Gross Block	161	253	338	398
Acc: Depreciation	28	39	55	75
Net Block	188	214	283	323
Capital WIP	2	15	15	16
Investments	1	1	1	1
Inventory	67	107	140	179
Sundry debtors	110	76	99	126
Cash	24	66	10	(0)
Loans & Advances	-	-	-	-
Inv+Other current assets	16	6	6	6
CL& Prov.	81	99	129	165
Net Current Assets	135	155	125	145
Total Assets	350	405	446	508

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	54	62	49	72
Depreciation	11	12	16	20
Interest	0	1	1	2
Other income	(4)	(4)	(6)	(7)
Prov for Taxation	8	(1)	17	25
Change in Working Capital	39	22	(26)	(30)
Taxes Paid	(10)	0	(17)	(25)
Cash from Operations	97	93	34	57
(Purchase)/Sale of Fixed Assets	(40)	(47)	(87)	(62)
(Purchase)/Sale of Investments	1	-	-	-
Other Income	4	4	6	7
Cash from Investing	(36)	(43)	(81)	(55)
Changes in Networth	(32)	2	-	0
Interest	(0)	(1)	(1)	(2)
Dividend paid	(7)	(8)	(8)	(10)
Cash from Fin	(40)	(7)	(9)	(12)
Changes in Cash	22	42	(56)	(10)
Opening Cash/Cash Equivalent	2	24	66	10
Closing Cash/ Cash Equivalent	24	66	10	(0)

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	54.7	62.7	49.5	72.3
Cash EPS	65.4	74.4	65.5	92.6
BV	343.2	397.4	397.4	501.1
DPS	7.0	8.0	8.0	10.0
Cash Per Share	28.3	39.9	55.9	76.3
Operating Ratios (%)				
EBITDA Margin	24.7	24.3	20.4	23.3
PBT / Net Sales	20.9	20.3	16.2	19.1
PAT Margin	19.3	16.7	13.0	14.9
Inventory days	87.3	135.0	103.0	136.0
Debtor days	144.2	95.7	73.0	95.7
Creditor days	105.9	124.8	95.2	125.5
Return Ratios (%)				
RoE	15.9	12.2	12.5	14.4
RoCE	17.7	15.3	16.6	19.4
RoC	25.4	19.6	21.7	19.8
Valuation Ratios(x)				
P/E	15.5	13.6	17.2	11.8
EV / EBITDA	11.8	11.1	10.1	7.5
EV / Net Sales	2.9	2.7	2.1	1.8
Market Cap / Sales	3.0	2.9	2.2	1.8
Price to Book Value	2.5	2.1	2.1	1.7
Solvency Ratios				
Net Debt / Equity	-	-	-	0.0
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)	1,884	2,175	Buy	264363	56.8	65.0	76.7	33.2	29.0	24.6	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,748	3,660	Buy	97862	29.5	36.7	50.5	93.2	74.8	54.4	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,600	3,011	Buy	24523	64.6	79.8	86.0	40.3	32.6	30.2	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,035	2,405	Buy	24248	26.2	38.7	53.4	77.6	52.6	38.1	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	429	542	Buy	11030	12.9	16.0	31.9	33.2	26.8	13.5	11.9	13.9	20.3	10.6	11.1	18.6
Greaves Cotton (GREAVE)	154	209	Buy	3560	0.7	3.5	3.6	217.6	43.7	43.1	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	428	474	Hold	13564	5.7	6.6	9.1	75.0	64.9	47.0	18.9	17.8	21.0	18.7	18.5	21.1
Bharat Electronics (BHAELE)	102	135	Buy	74560	3.2	3.8	4.5	31.9	26.8	22.7	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	528	445	Buy	6945	42.9	38.6	42.3	12.3	13.7	12.5	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,545	4,920	Buy	22470	77.0	104.8	122.9	59.0	43.4	37.0	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,038	3,561	Buy	22851	43.5	61.3	71.2	69.8	49.6	42.7	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	171	220	Buy	1657	7.8	9.2	12.1	21.9	18.6	14.1	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	275	365	Buy	3275	8.8	13.9	18.2	31.3	19.8	15.1	23.0	24.0	25.8	13.9	17.1	18.3
Data Patterns (DATPAT)	1294	1,280	Buy	6714	18.1	22.2	30.4	71.4	58.3	42.5	23.8	24.9	28.1	16.4	18.4	20.9
HAL (HINAER)	2,365	2,860	Buy	79083	151.9	130.9	143.1	15.6	18.1	16.5	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,196	3,275	Buy	67726	25.5	38.9	43.7	125.5	82.2	73.2	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	889	890	Buy	1209	33.2	37.5	49.3	26.8	23.7	18.0	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	888	1,068	Buy	16275	27.3	33.0	42.7	32.6	27.0	20.8	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	622	562	Buy	12545	30.3	31.2	40.1	29.4	28.5	22.2	20.0	18.1	20.9	16.1	14.6	16.6

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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