"The Anup Engineering Limited Q1 FY'25 Earnings Conference Call"

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MANAGEMENT: **MR. REGINALDO DSOUZA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – THE ANUP ENGINEERING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Conference Call for a discussion of Financial Results of First Quarter ended on FY 2024-'25 of The Anup Engineering Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Reginaldo Dsouza, Managing Director and Chief Executive Officer. Thank you, and over to you, sir.

Reginaldo Dsouza: Thank you. Hello, everyone, and warm greetings from team Anup. I'm glad to be part of this call to share our quarter 1 results of the financial year '24-'25 and also to provide a brief on the business outlook. We clocked a revenue of INR146 crores for quarter 1, which is 16.6% growth Y-o-Y over the same period last year and with an EBITDA of INR33 crores, which is 22.6% EBITDA. This is our best quarter 1 on revenue. The previous best was INR125 crores, which was in the last financial year. So with this INR146 crores in quarter 1, we've clocked our best quarter 1 revenue so far.

The fundamentals of the business continue to remain strong. A strong pending order book position of INR810 crores end of quarter 1, a well-managed working capital of 3.97, export share of the revenue at 48.6% truly signifies that we are a global player now. And moreover, with the current execution plan on hand, we will end the year with exports of over 50%.

Our strategy to get deeper into complex equipment types and spread geographically is evident from the results. The higher cost of goods sold signifies a higher complex metallurgy mix product portfolio and the exports at 50% plus demonstrate our reach into newer international markets.

On the major strategic long-term developments, I wish to mention a few. Our Kheda facility has stabilized the Phase 1 operations and are executing some critical long duration projects at the moment. Of the total quarter 1 revenue, INR8 crores was built from Kheda in quarter 1. Moreover, with the plan in place, the Kheda plant should deliver anywhere between INR150 crores to INR175 crores revenue for this financial year. The orders for this being already in hand.

Mabel Engineers, the plant that we acquired this year in Tamil Nadu, the transaction was closed on 19th June 2024 of quarter 1. So it meant that we had 11 days of the quarter. And during those 11 days, we posted a revenue of about INR1.7 crores, which is part of the consol number of INR146 crores. And as conveyed in the last call, Mabel would clock about INR50-plus crores revenue for this financial year.

Another piece, our new design office at Vadodara, which we started off somewhere in the month of March this year, has also shaped up well and helping our operations very, very effectively. This team at Vadodara and the design team will be a 50-member team, and we wish to grow this bigger as we move into the years. On a broader scale, on the capacity side, now with the three manufacturing locations, that is one in Ahmedabad, the second one at Kheda and the third one in Tamil Nadu, we now have a capacity build for almost INR1,000 crores.

To talk a little on the sustainability initiatives, the 1-megawatt rooftop solar at Ahmedabad plant has been now commissioned and yielding desired results. Happy to announce that we also own and operate a windmill and also happy to state that with these operational, approximately 60% of our power requirement in Ahmedabad plant is through renewable sources. We also have plans to commission the rooftop solar at Kheda plant too in this financial year, which will ensure that we use about 70% of our total power requirements through renewable sources.

On the market side, we see continued investment, especially in gas, hydrogen and fertilizer business. Although on the domestic side, we see a little lower traction, but export opportunities are at a very good level. Having said this, we are hopeful of domestic opportunities, resurfacing probably after October, November period, as mentioned in my last call.

On the export side, we see good traction from the United States of America, Middle East regions and some in Australia and Africa. The present geopolitics is a very important aspect in our consideration of where we do business. And hence, we exercise a lot of caution in deciding on the projects we work with. We will continue on our strategy to spread geographically to newer customers and newer countries.

Finally, to conclude, we had our best quarter 1 performance and the momentum created will surely help our guidance of 25% to 30% growth plan for this financial year. We will cross the INR700 crores mark for this year with an EBITDA of 20%-plus. The pending order book of INR810 crores as on date and with some very interesting opportunities ahead gives us good visibility into this year and also the coming year.

For this year's revenue, the focus is now solely on executing the orders on hand. We have completed the order booking for this year. We have the complete order book on hand. The only focus now remains for this year is on executing the orders, which I believe, over the last six quarters, we've done a pretty decent job. And on the order booking side, we are calibrating our order intake for the next financial year, that is '25/'26.

I am confident that with a good business visibility into the year and at the strength of a strong capable team at Anup, and with the continued support from our reliable partners and suppliers, we will be able to deliver on our plans. My sincere thanks to all our hard working committed team members, our partners, our suppliers and all our shareholders for standing by and trusting in us. We are ever indebted for your trust and support.

Thank you all for attending this call and for your patient listening. I'll be happy to have your questions now. Thank you.

Moderator: The first question is from the line of Chetan Vora from Abakkus Asset Managers.

Chetan Vora: Congratulations on the good set of numbers. I just wanted to understand that the guidance what you have given of INR700 crores plus and EBITDA of 20%-plus, that is for the stand-alone business, right?

Reginaldo Dsouza: That is correct. Mabel will be added to that.

Chetan Vora: Right. And why the EBITDA of 20% on the stand-alone? Because what -- we were under the impression that the entire order book is at a very good margin. So why 20%-plus?

Reginaldo Dsouza: So Chetan, as I said, you're right. This year, we have moved up in the metallurgy and complexity of equipment. Because of the same capacity, we have to move up in terms of revenue. So the material content -- and you can easily see it in the cost of goods sold for quarter 1 as well where the material percentages are almost now at about 55%.

It will go up a little considering the titanium and other metallurgies that we are going to execute in the coming quarters. So that's the reason we are saying -- of course, it's being a little conservative, 20%-plus, but definitely, we will be in the region where we have ended the quarter 1.

Chetan Vora: Because the quarter 1 ended, we have done close to 23% margin. So what percentage of the complexities would have grown in this quarter in terms of execution of this INR145 crores?

Reginaldo Dsouza: So most of the equipment that we have delivered in this is for hydrogen. So if you look at our configuration on the industries that we have served, most of it has moved to hydrogen side of the business, where most of the metallurgies would be on the duplex and super duplex side. So if you look at the slide of industry, we've almost covered 47% of the total revenue to hydrogen for this year, which is an unusual thing.

We normally have almost 75% of our business coming from oil and gas and petrochemicals put together, as against that roughly about 46% this year -- for this quarter into that segment. But of course, it will normalize along the next 3 quarters, and it would come back to our original mix of Oil and Gas and Petrochemicals roughly around 65%.

Chetan Vora: Right. So despite 46% of the revenue coming from hydrogen, we are still able to manage 23% margin. So that the guidance of 20% looks to be quite conservative, isn't it?

Reginaldo Dsouza: Yes, that's what I said. So as we progress into the quarter, things will be more clearer because we've got some buying still pending for the future quarters. But as I said, we will surely see it anywhere in the region of 20% to 22%.

Chetan Vora: Right. And then what kind of order book we are anticipating to close it for this year? As we have right now INR810 crores of revenue or order book, and we are saying that we will be focusing on executing this order book, which we have on hand. So what sort of order book we would like to have by the end of the year after the execution of say nearly about INR700 crores of revenue?

Reginaldo Dsouza: So the order booking new order intake for this financial year, we should be close to about INR900 crores, which will be in line with our plan for next year, which will be, again, a growth of 25% to 30% from this year's number.

So if you put the arithmetics together on the pending order book of INR810 crores, assuming that we are going to have a 30% growth this year, you would see that we already have close to about INR225 crores around number for next year already, which should be good enough for our quarter 1 number for next year.

So it is very evident that we are actually calibrating our order intake in line with the execution for next year. Because execution is very, very crucial for us. On time delivery is very crucial. So we are actually calibrating the order intake for next year based on the execution philosophy for the next financial year.

So as I said, direct answer, approximately about close to INR900 crores will be the new order intake in this financial year, which will set ourselves in a clear visibility of financial year '25/'26 as well.

Chetan Vora: And this, when you are saying this is only the stand-alone. Right now, we are not seeing including Mabel, right? Mabel will be separate, right?

Reginaldo Dsouza: No. So when you look at next year, Chetan, as I mentioned in my last call as well, and in fact, in this call as well, if you look at all the 3 capacities that we have put in place now, that is Ahmedabad facility, Kheda Phase 1, which we've completed, and Mabel, the total capacity put together is about INR1,000 crores.

So the next year, that the numbers that we talk about will be inclusive of Mabel, which should be close to about INR100 crores last year. This year, we are talking about around INR50 crores to INR60 crores within that. And next year, it should be about INR100 crores.

Chetan Vora: So the next year, if you're seeing INR100 crores of revenue -- or consol revenue, then INR100 crores from Mabel, so the organic growth will be like on INR700 crores to INR800 crores. Is that fair understanding?

Reginaldo Dsouza: Sorry, can you please repeat that again? I couldn't get it?

Chetan Vora: What I was asking that if we next year, we are planning to do a sales of INR900 crores and of that Mabel is INR100 crores, so the -- Anup on its own will be doing a sales of INR800 crores, which this year we are looking to do a sales of INR700 crores, a growth of 15%. Is that right?

Reginaldo Dsouza: No. So next year, again, Anup will look at a growth of 25%. So we will continue on a consol basis, the growth of 25% to 30%. So we should be very close to hitting the INR1,000 crores mark next year. And it is in line with discussion if you see on the last call. So it's in line with our plan.

Chetan Vora: Right. Got it. So next year, we are looking to do a number close to INR1,000 crores of revenue. And just on the maintenance side. In the June quarter, we have seen a sharp decline on the operating and the manufacturing expenses, the other expenses, which has declined from INR31 crores to INR24 crores. Any specific reason for that?

Reginaldo Dsouza: That, Chetan, was largely due to the royalty payout. So in the last year first quarter, we had a lot of Helix heat exchangers which we have delivered, which calls for royalty to Lummus Heat

Transfer who was the licensor. Whereas in this quarter, we had the issue of funds under the royalties. So the difference is majorly due to the royalty shares.

Moderator: The next question is from the line of Nitin Gandhi from Inoquest Advisors Private Limited.

Nitin Gandhi: Can we start talking about Phase 2 Kheda, what's the plan and -- because whatever current capacity, INR1,000 crores are there for that the visibility, everything is built. So if you can throw some next -- light for next phase post 1K, it will be helpful.

Reginaldo Dsouza: Yes. So on Phase 2 at Kheda, as mentioned in the earlier call, too, so we have now capacity built in enough for INR1,000 crores with all these three plants. And -- on organically, we are planning a 25% to 30% growth journey. So the capacity built in is good enough for next financial year as well.

And as mentioned earlier, we are timing the decision for Phase 2 by probably end of this calendar year, somewhere around November, December, we will take a call. Because it takes about 11 months for us to build a manufacturing bay at Kheda. So we will time the investments, we will time Phase 2 investment probably somewhere in the month of November, December.

And as I said, we are open to looking at opportunities. So if something like the earlier acquisitions come our way, we will look at it. So that's the reason we are giving ourselves that some time to take the timely decision of Phase 2. So Phase 2 decision, we would announce probably in quarter 3 of this year.

Nitin Gandhi: Assuming we go for Phase 2 and at the time of the design of Phase 1, I think we had estimated -- some guess estimate for Phase 2 to what's likely capacity and what is the amount? Can you share those numbers if they are revised or something?

Reginaldo Dsouza: Yes. For each manufacturing bay at Kheda, addition would cost us roughly about INR40 crores to INR50 crores of capex. And that should give depending on the product portfolio that's ordering that we are able to book, it should give us an assertion of -- between 3 to 4.

Moderator: The next question is from the line of Bhavya from Samaasa Capital.

Bhavya: Congratulations on a good set of numbers. Just one question. I don't know if you have mentioned it in the opening remarks, but I just wanted to understand in the last few years, have you seen any new geographical region that has come up? And going ahead any particular area you're kind of looking at it can be a good opportunity?

Reginaldo Dsouza: Yes. So we did add two countries last year. So if you have seen our presentation, we were at 32 countries, now we are present in 34 countries. And that is very much in our strategic roadmap of widening our reach into various continents and geographies of the world. So we've got another two countries planned in this year. So we have a targeted approach to venture into new geographies. So there are two more reasons that we wish to enter. The legwork has already been done. The moment things materialize, we will surely let you know about this.

But the strategy, as I explained, is very clear. It's a two-pronged strategy, get deeper into a complex and more technical products. And the second strategy is spread wider into new geographies and new countries.

Bhavya: Understood, sir. That was helpful. Just one last question. What percentage of the current order book will be executed towards hydrogen?

Reginaldo Dsouza: So in quarter 1, you would have seen a spike almost about 47%, but that's because there were large chunks of equipment that we made for hydrogen. But on the annualized at the end of the year, you would see anywhere number between 20% to 30% coming from hydrogen.

Bhavya: But is it fair to assume none of this will be from a domestic point of view, it will be all exports?

Reginaldo Dsouza: I would put it as about 5% would be for domestic, larger -- almost 25% -- 20% to 25% would be for export mainly to United States of America and Canada. These are the two regions that we have supplied. And a considerable amount even for Saudi Arabia -- the Neon project in Saudi Arabia, which is a green hydrogen project.

Bhavya: Understood. So this will be the first time you'll be doing a domestic order for hydrogen? Is that a fair assessment?

Reginaldo Dsouza: No. We've done this in the past. So hydrogen business we were into so many years, but green hydrogen, we've never done it. So this is the first project that we did for green hydrogen, but not for domestic as it was for Saudi Arabia. But hydrogen has been continuous fees for long, but of course, not as a high percentage as this today.

It used to be about 2% to 3% very negligible of the total revenue. But now with a renewed focus on the energy transition, a large amount of projects are declared on blue hydrogen in the United States and Canada. That's the reason the percentages have gone up to about 20% to 30%.

Moderator: The next question is from the line of Prateek from Subh Labh Research.

Prateek: Congratulations on good set of numbers, Mr. Dsouza. I was just curious on the order book side, so because if we see this quarter, we are seeing sequential fall in both domestic and export order book. Now domestic we understand because of elections and all there was a discussion of slowdown. But what is causing export order book to shake? And in domestic order book, sir, what is the current bidding pipeline, if you can share, which is probably supposed to be revived after November, probably as per your comment.

Reginaldo Dsouza: Yes. So on the order booking side, as I mentioned earlier, it was more about we calibrating ourselves in line with the execution philosophy. So as I mentioned, we -- it was a running average of about INR900 crores to INR1,000 crores kind of an inquiry bank in our hand. So probably it was the choices that we decided to make in quarter 1. Because even if we had taken, we wouldn't have been able to execute it on time. And as I said, execution is very, very crucial to us.

Of course, now it's the time that we will definitely focus on other booking gain because if we look at the numbers, as I said, if we put the arithmetics together, we already have close to about

INR225 crores order book for next year, which is just over our quarter 1 plan of next financial year.

So as we speak, on hand, we have close to about INR900 crores kind of on inquiry bank position or of which close to about INR250 crores to INR300 crores is domestic and balance is exports. Generally, what we see is close to about INR1000 crores to INR1,200 crores kind of an inquiry bank position.

And we see generally a 50%, 50% ratio between domestic and international. So since domestic is in little under slow traction right now because of the reasons mentioned earlier, it's about close to about 20%, 25%. But based on our information and what we see on the project progress, we see this uptick again from October, November onwards, that's the third quarter for this year.

Prateek: Understood. So it makes sense. So you're saying that it's a conscious call we have taken to contain the order book rather than any market dynamics playing into it?

Reginaldo Dsouza: So it's got -- let me be frank. It's got both, one is calibrating of course. And of course, because of the domestic being on the lower side, the prices were lesser as compared to the past. So that's the way I would put at it, but more from the calibration perspective, in line with our execution philosophy for next year.

Prateek: Understood. Just one small question. The execution this quarter is heavily tilted towards heat exchangers. So is there more to read into it or the execution was planned that way, Mr. Dsouza?

Reginaldo Dsouza: So it was planned and I would give you a reason for that it becomes very evident. So as you know, now Kheda has kick started with the full-scale production of Phase 1. And as explained earlier, strategically, Ahmedabad plant will now continue making only heat exchangers and Kheda plant will make reactors, vessels and columns, because of the sheer location of the plant being on the highway and also because of the sheer size of that plant.

Heat exchangers are smaller in sizes and Ahmedabad being in the city, that's how we strategically decided that Ahmedabad will be the heat exchanger manufacturing hub and Kheda will be the reactors, vessels, and columns manufacturing hub.

And added to that, the product portfolio, which will be in Kheda will be all longer duration cycle time. So for example, a heat exchanger would be anywhere between 2.5 to 3 months in manufacturing on the shop floor, reactor and vessels would be about 5 to 6 months on the shop floor. So a lot many equipments which are in progress and in quite an advanced stage in Kheda, they will come for deliveries in quarter 2 because they will get ready by then.

And whereas in Ahmedabad, we are able to turn around the deliveries every quarter. Of course, it will normalize now as Kheda picks up and longer duration orders are continuously booked over there. But since this was sort of a first quarter in full-fledged position, lot of equipments have reached advanced stage of manufacturing, but not yet delivered.

So you will see that happening. And that is the reason the overall turnover of INR146 crores, you see a larger chunk coming from Ahmedabad which are heat exchangers. But next quarter and onwards, it will normalize and come back to what I mentioned earlier, about 65% to 70% would be heat exchangers and 30% to 35% would be vessels, columns and reactors.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Reginaldo Dsouza, Managing Director and Chief Executive Officer, for closing comments.

Reginaldo Dsouza: Yes. Thanks. So I once again take this opportunity to thank my wonderful team at Anup and to each and every one who has supported and helped us deliver results. A big thank you to all of you, our shareholders, for your trust and standing by our side always. Thank you. And on behalf of my team at Anup, I wish you all a very happy, healthy and a prosperous life ahead. Thank you so much, and have a good day ahead. Thank you.

Moderator: On behalf of Anup Engineering Limited, that concludes the conference. Thank you for joining us, and you may now disconnect your lines.