Anup ENGINEERING

Crafting the Future with Engineering Expertise

The Anup Engineering Limited

Accumulate

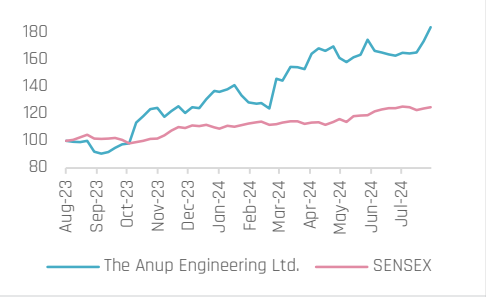
Key Data	
DATE	23-08-2024
Reco Price	2000-2040
Target	2894
Sector	Engineering
BSE Code	542460
NSE Code	ANUP
Face Value (Rs.)	10.00
Market Cap (Mn)	40,199.95
52-week High/Low (Rs)	2187/928

Source : NSE, BSE

Shareholding pattern (June-2024)	%
Promoters	41.24
DIIs	11.06
FIIs	1.18
Public	46.53
Total	**100**

Source : NSE, BSE

Price Performance



Rebase to 100

Company Background

The Anup Engineering Limited" (erstwhile subsidiary company of Arvind Limited) was originally incorporated in the year 1962. In the year 2017 Arvind Limited decided to demerge The Anup Engineering Limited as separate entity. The company got listed on BSE & NSE on 1st March, 2019. It is an India-based company that is engaged in manufacturing and fabrication of process equipment. The Company's products include static process equipment, technology products, engineering services, dished ends and industrial centrifuges. Its static process equipment includes heat exchangers, reactors, pressure vessels, columns and towers, and custom fabrication. Its technology products include Helixchanger and EMBaffle Heat Exchanger. The Company offers a range of shell and tube heat exchangers for oil and gas, refinery, petrochemical, fertilizer, power, water and wastewater, and chemical industries. Its range of heat exchangers include evaporators, high-pressure feed water heaters, surface condensers, waste theat exchangers, multi-tube hairpin exchangers, bayonet heat exchangers, catalyst coolers, transfer line exchangers and others.

Outlook and Valuation

ANUP technical expertise and specialized products offer significant benefits over conventional heat exchangers which is expected to support its profitability, its core strength lies in project execution, to handle complicated equipment and on-time delivery record. Anup has been maintaining healthy EBITDA margin of over 20% over past many years despite volatility in commodity prices backed by strict control over its overheads coupled with efficient management of order book and product mix. **Given the promising outlook, strong order book, and an impressive on-time delivery record of over 95%, makes solid reputation of the company among its user industries. Consistency in this well-adopted strategy make its growth aspirations realistic. We project a 30% CAGR growth for FY24-FY27E and recommend an ACCUMULATE position for medium to long-term investment on basis of PE multiple of 30x and an estimated EPS of Rs 96.7 for FY27E, the stock offers a favorable investment opportunity.**

Financial Snapshot (Consolidated)

Particulars (Rs. in Mn.)	FY24	FY25E	FY26E	FY27E	CAGR % (FY24 - FY27E)
Revenue	5,504	7,155	9,301	12,092	30%
EBITDA	1,283	1,574	2,046	2,660	28%
EBITDA %	23%	22%	22%	22%	
PAT	1,035	1,045	1,434	1,925	23%
EPS (Rs.)	52.0	52.49	72.0	96.7	

Source: Company, ACMIIL Retail Research

Company at glance

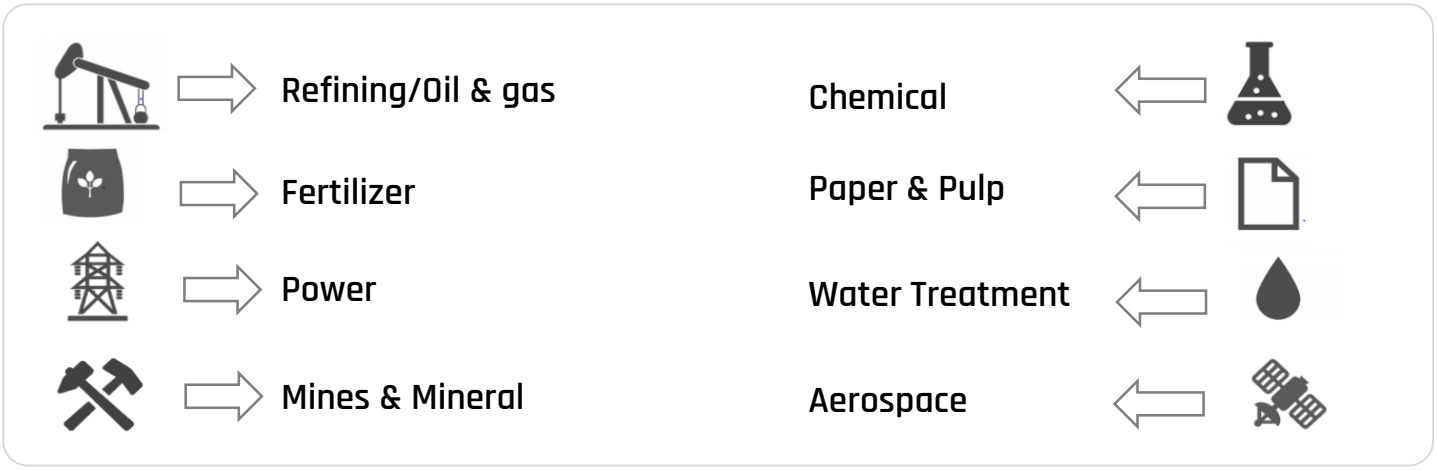
- The Company manufactures and fabricates process equipment for oil & gas, chemicals, petrochemicals, pharmaceuticals, fertilizers, Aerospace, power and water industries & others.
- Its product portfolio includes heat exchangers, shell and tube columns, helical baffle columns, packed and tray columns, reactors, high-thickness pressure vessels, and centrifuges.
- It has 2 World Class facilities with state of the art machineries with World Class 8 Clean room facility.
- It excels in detailed engineering, thermal design, and FEA analysis, meeting global standards.
- Export opportunities are strong in the US, Middle East, Australia, and Africa, while domestic demand is expected to improve, driven by a revival in private capex. The market outlook indicates continued investment in gas, hydrogen, and fertilizers sectors.

Product Range

	**Heat Exchangers:** A heat exchanger is a device used to transfer heat from one medium to another. They are widely used in heating equipment, refrigeration, air conditioning, power plants, chemical plants, petrochemical plants, petroleum refineries, natural gas processing and sewage treatment.
	**Reactors:** An apparatus or structure in which fissile material can be made to undergo a controlled, self-sustaining nuclear reaction with the consequent release of energy.
	**Pressure Vessels:** The Pressure vessels (cylinder or tank) are used to store, handling or processing fluids under pressure. Pressure vessel stores pressurised product in it depending on the requirements of process. It is majorly used in oil refinery, Pharmaceutical, Nuclear reactors, submarines etc.
	**Coumns/Towers:** Towers and Columns are used for separation of gases or liquids by using of trays. Column word is mostly used when vertical height is much greater than its diameter. It is majorly used in oil refineries and chemical industry.

Source: Company, ACMIIL Retail Research

Catering to wide spectrum of industries



Source: Company, ACMIIL Retail Research

Key Clients

Source: Company, ACMIIL Retail Research

Investment Rationale

Diverse Product Portfolio fuels growth Amidst Robust Capex Cycle

Anup Engineering has a diverse product portfolio encompassing Heat Exchangers, Reactors, Pressure Vessels, Columns & Towers, Industrial Centrifuges, and Formed Components, serving industries such as Oil & Gas, Petrochemicals, LNG, Fertilizers, Chemicals, Power, Water, and Paper & Pulp. Historically, company have been dominant in the Shell & Tube heat exchangers which formed almost 70% of annual revenue. Now with the new manufacturing plant at Kheda with close proximity to the National highway provides us that opportunity to address larger sized equipment. The new manufacturing facility has the capacity to handle equipment with maximum weight of 800 tons to 1,000 tons thereby enabling growth in scale of operation by handling large size equipment and export orders more efficiently. Therefore, the product range would improve more on Reactors, Vessels, Columns and other larger sized equipment in future. But Heat exchanger will still continue to be the dominant product. Management is expecting the Heat exchanger to be between 60-65% of revenue for FY25. The company is experiencing a robust capital expenditure cycle, both domestically and internationally, which bodes well for manufacturers in this sector. This positive trend in Capex is advantageous for Anup Engineering, aligning with the strong demand and growth opportunities in the capital goods market.

Strategic Location Advantage Enhances Anup Engineering's Manufacturing Efficiency

Anup Engineering's manufacturing facility in Ahmedabad, India, strategically spans 45,000 sq. meters and features 6 heavy and 4 light fabrication bays. The versatility of the facility allows for the seamless production of equipment ranging from 20 MT to 450 MT. Its advantageous location near major national highways and proximity to key sea ports, including Mundra and Kandla (400 km and 350 km away, respectively) and Mumbai (550 km away), facilitates smooth logistics operations. Additionally, the company's dedicated logistics team ensures the efficient global transport of equipment from the facility to clients worldwide.

Anup Engineering Positioned to Capitalize on Emerging Opportunities in Hydrogen and Green Ammonia

The growing emphasis on hydrogen as an energy source and the focus on green ammonia for green fertilizers and hydrogen are generating significant opportunities for Anup Engineering. With numerous global projects underway and more being announced, there is an increasing demand for advanced manufacturing solutions. Anup Engineering's expertise aligns with these trends, particularly in the petrochemicals, fertilizer, gas, hydrogen (blue), and specialty chemicals sectors, where favorable macroeconomic indicators are driving growth. The company's capabilities in producing high-quality equipment are well-positioned to support the expansion and innovation in these emerging markets.

Anup Engineering's Extensive Experience and Certifications Strengthen Market Position

Anup Engineering benefits from nearly six decades of expertise in designing and fabricating process equipment and engineering goods, since its establishment in 1962. The company's leadership, including Chairman Sanjay Lalbhai, who also serves as Chairman and Managing Director of Arvind Limited, brings extensive experience in managing diverse business ventures. Anup Engineering is an ISO 9001:2015, ISO 14001:2015, and ISO 45001:2018 certified organization, reflecting its commitment to quality, environmental management, and occupational health and safety. Additionally, Company holds certifications from the Petroleum and Explosives Safety Organisation (PESO) and Indian Boiler Regulations (IBR). Its products are approved by leading third-party inspection agencies, project management consultants, and engineering project consultants, including Engineers India Limited, Project Development India Limited, Jacob H&G Limited, ThyssenKrupp Industrial Solutions (India) Private Limited, Air Products USA, Toyo Japan, Saipem, Linde Germany, and Technip France. Moreover, Anup Engineering has secured "U," "U2," "S," and "R" stamp authorizations from the American Society of Mechanical Engineers (ASME), facilitating its entry into the export market and ensuring compliance with safety regulations in nearly 100 countries.

Strong Relationships with Clients Drive Repeat Business and Long-Term Partnerships

Anup Engineering has cultivated long-term relationships with its clients, earning preferred supplier status with many of them. The company consistently receives repeat orders from nearly all of its customers, a testament to its ability to manufacture and supply products that meet exact design specifications and maintain a track record of delivering high-quality, cost-competitive solutions.
Company's commitment to exceptional customer service, including efficient handling of complaints and warranties, further deepens these relationships. It continually works on value engineering, designing optimized products that reduce costs and share savings with customers. By partnering closely with clients to develop tailored products, Anup Engineering not only strengthens these partnerships but also increases customer reliance on the company, streamlining development processes, reducing testing time, and eliminating duplicated efforts. Additionally, Anup Engineering's strong global marketing network enables faster interaction with customers, fostering stronger relationships and ensuring ongoing collaboration over time.

Focus on ESG approach

The 1-megawatt rooftop solar installation at the Ahmedabad plant has been successfully commissioned, now supplying approximately 60% of the plant's energy requirements through renewable sources, alongside an operational windmill. With plans to commission a rooftop solar system at the Kheda plant within this financial year, the company aims to increase its renewable energy usage to around 70% of total power requirements. Additionally, the company is committed to reducing waste generation throughout the entire lifecycle of its products. Robust systems and processes are in place for waste management, including segregation, collection, and disposal. Environmentally friendly end-of-life disposal methods are practiced, with waste disposed of through authorized agencies. These initiatives highlight the company's strong commitment to sustainability and reducing its overall carbon footprint.

Focus on R&D and Innovation to Meet Growing Customer Demands

As customer demand for higher performance and top-quality products continues to grow, Anup Engineering is committed to enhancing its research and design capabilities to stay ahead of market trends and evolving customer needs. A key element of the company's strategy is to develop high-value, technology-driven products that address shifts in customer preferences and comply with changing regulatory requirements. By consistently delivering innovative and high-value products, Anup Engineering aims to become the preferred supplier for its customers, strengthening its market position and increasing its share of customer supply needs. The company's R&D team is focused on designing more efficient and environmentally friendly models across its product portfolio, in line with the industry's push towards sustainability and high-performance solutions. This dedication to R&D and innovation enables Anup Engineering to maintain a competitive edge in the marketplace while addressing the future demands of the industry.

Provides diverse engineering services and products globally

The company offers a comprehensive range of engineering services, including thermal and mechanical engineering, FEA (Finite Element Analysis), CFD (Computational Fluid Dynamics), 3D modeling, and advanced technology products such as the Helixchanger, Embaffle, and polymerization reactors. With over 62 years of experience in fabricating various types of static process equipment across a wide range of metallurgies, the company stands out for its unmatched delivery record, versatility, and flexibility. It can handle equipment ranging from 10 MT to 800 MT in weight and efficiently manages large-scale projects. Additionally, the company has supplied equipment to more than 34 countries across all continents, adhering to global construction standards and industry codes.

Strategic Acquisitions and Developments Driving Growth and Expansion

The company completed its first acquisition with the purchase of Mabel Engineers Private Limited, a manufacturing company based in Tamil Nadu, India. This strategic acquisition enhances the product portfolio by adding silos, tanks, and site service expertise, allowing the company to better address customer requirements. It also broadens the geographical footprint of manufacturing locations, enabling more competitive service. Additionally, the acquisition strengthens the company's engineering capabilities, particularly in designing silos, tankages, and site-fabricated solutions for complex projects.

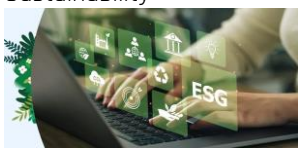
The Kheda facility has stabilized Phase 1 operations and is currently executing critical long-duration projects. In the first quarter alone, the facility contributed INR 8 crores in revenue, with projections to generate between INR 150 crores and INR 175 crores for the financial year, based on the strong order book. Meanwhile, the new design office in Vadodara, launched in March this year, has rapidly become an essential support for operations. The design team, which currently consists of 50 members, is expected to expand in the coming years, further strengthening the company's design and engineering capabilities. With three manufacturing locations now in Ahmedabad, Kheda, and Tamil Nadu, the company has built a production capacity to support future growth in revenue. These strategic acquisitions and developments are laying the foundation for significant growth opportunities and enhancing operational efficiency across the board.

Export as opportunity

The company is experiencing strong momentum in its export markets, with significant traction from regions including the United States, the Middle East, Australia, and Africa. Building on its strategic roadmap, the company has expanded its global presence from 32 to 34 countries and is on track to enter two additional markets this year, with preparations well underway. The export order backlog is largely driven by demand from the United States, alongside substantial contributions from the Middle East, particularly Saudi Arabia and Abu Dhabi, where new projects are gaining momentum. Major orders from Nigeria and Australia further highlight the company's strategic focus on these key regions. With the United States and the Middle East identified as critical growth areas, the company continues to capitalize on emerging opportunities in these markets.

Industry Overview

India's Capital Goods manufacturing industry serves as a strong base for its engagement across sectors such as Engineering, Construction, Infrastructure and Consumer goods, amongst others. The engineering sector is the largest of the industrial sectors in India. It accounts for 27% of the total factories in the industrial sector and represents 63% of the overall foreign collaborations. Demand for engineering sector services is being driven by capacity expansion in industries like infrastructure, electricity, mining, oil and gas, refinery, steel, automobiles, and consumer durables. India has a competitive advantage in terms of manufacturing costs, market knowledge, technology, and innovation in various engineering sub-sectors. India's engineering sector has witnessed remarkable growth over the last few years, driven by increased investment in infrastructure and industrial production. The engineering industry in India is projected to reach a market size of $125 billion by 2027, growing at a robust compound annual growth rate (CAGR) of 11.68% from $52.98 billion in 2022. The engineering sector, being closely associated with the manufacturing and infrastructure sectors, is of huge strategic importance to India's economy. The development of the engineering sector of the economy is also significantly aided by the policies and initiatives like Make in India, Atma Nirbhar Bharat etc. of the Indian government.

Sectors	Growth Drivers
Oil and Gas 	Providing essential equipment for refining, petrochemical processing, and upstream oil and gas operations. Engineering firms offer pressure vessels, reactors, and storage tanks. **High Demand for Equipment:** Continuous exploration and production activities require advanced equipment, including pressure vessels and reactors. **Upgrades and Maintenance:** Regular upgrades and maintenance of existing facilities drive demand for new and replacement parts.
Chemical & Petrochemical 	Supplying specialized equipment and engineering solutions for chemical processing, including reactors, separators, and distillation columns. **Complex Processing Needs:** The chemical industry requires specialized equipment for complex processes such as distillation and reaction, creating opportunities for custom solutions. **Expansion Projects:** Growth in global chemical production leads to new plant constructions and expansions.
Power Generation 	Offering engineering solutions for power plants, including boilers, turbines, and ancillary equipment for both traditional and renewable energy sources. **Energy Demand:** Growing global energy demand necessitates the construction of new power plants and upgrades to existing facilities. **Renewable Integration:** The shift towards renewable energy sources requires new engineering solutions and equipment.
Construction and Infra 	Designing and manufacturing equipment for construction projects, such as steel structures, pipelines, and specialized machinery. **Urbanization and Development:** Rapid urbanization and infrastructure development projects increase demand for construction machinery and structural components. **Government Investments:** Public investments in infrastructure projects drive the need for engineering solutions.
Water and Wastewater Treatment 	Providing solutions for water treatment plants and wastewater management systems, including filtration systems, pumps, and treatment reactors. **Environmental Regulations:** Stricter environmental regulations drive investments in water and wastewater treatment facilities. **Population Growth:** Increasing population and industrial activities heighten the need for effective water management systems.
Pharmaceuticals and Healthcare 	Designing and manufacturing equipment for pharmaceutical production, medical devices, and healthcare infrastructure, including cleanroom facilities and storage solutions. **Technological Advancements:** Innovations in pharmaceuticals and healthcare drive the need for advanced manufacturing and processing equipment. **Aging Population:** Rising healthcare needs due to an aging population increase demand for medical devices and production facilities.
Automotive and Aerospace 	Offering specialized engineering solutions for vehicle and aircraft manufacturing, including components, systems, and advanced materials. **Technological Evolution:** Advances in automotive and aerospace technology create opportunities for specialized engineering solutions and components. **Demand for Innovation:** The push for innovation in these industries drives the need for advanced manufacturing techniques.
Environmental and Sustainability 	Engineering solutions for waste management, recycling, and environmental protection, including equipment for reducing emissions and improving energy efficiency. **Regulatory Pressures:** Growing environmental regulations and sustainability goals create demand for equipment and technologies that support green practices. **Resource Management:** Investments in waste management and resource recovery drive the need for engineering solutions that improve efficiency and reduce environmental impact.
Industrial Automation 	Providing equipment and systems for automating industrial processes, including robotics, control systems, and monitoring technologies. **Efficiency and Productivity:** The push for increased efficiency and productivity in manufacturing drives demand for automation solutions and robotics. **Technological Integration:** Advances in technology lead to more sophisticated automation systems, creating opportunities for innovation and implementation.

Opportunities Arising from India's Oil and Gas Sector's Shift to Green Technologies

India's oil and gas companies are increasingly focusing on green hydrogen, carbon capture, utilization, and storage (CCUS), and renewable energy to achieve net-zero emissions. Companies like ONGC are advancing in CCUS, while Indian Oil is venturing into green hydrogen and boosting domestic electrolyser production. Investments in renewable energy are being prioritized to power operations like electric boilers and green hydrogen production, with companies like BPCL devising hybrid solar and wind solutions to reduce emissions. HPCL is also upskilling its workforce to adapt to net-zero technologies. These developments offer opportunities for Anup Engineering to supply critical equipment for green hydrogen, CCUS, and renewable energy projects, while also positioning the company for partnerships and growth in these emerging markets.

Economic Revival and Infrastructure Growth Present Opportunities

The rising private sector investment and a revival in both rural and urban demand are set to accelerate India's economic growth, with a projected increase of 7.2% for the current fiscal year. There are early signs of new capacity creation and a surge in investment intentions, with capital investments reaching a record ₹3.90 lakh crore in 2023-24, predominantly in infrastructure sectors such as roads, bridges, and power. This surge is driven by increased domestic demand, improved capacity utilization, and a strong government focus on infrastructure development. Rural consumption, bolstered by growing incomes, is also contributing to higher spending on fast-moving consumer goods (FMCG), indicating robust economic fundamentals. The overall investment climate is favorable, with healthy corporate and bank balance sheets, sustained credit demand, and business optimism supporting future investments. These trends offer significant growth opportunities for Anup Engineering, as increased infrastructure projects and industrial activity create higher demand for engineering solutions, positioning the company to capitalize on the economic momentum.

Emerging Opportunities in Carbon Capture: A Potential Growth Avenue for Engineering Companies

The Government plans to introduce Viability Gap Funding (VGF), carbon credits, and subsidies to boost Carbon Capture, Utilisation, and Storage (CCUS) in India, a market with $10 billion potential over the next five years. A CCUS policy expected this year could incentivize new product lines like green ammonia and hydrogen. CCUS involves capturing CO2 from industries such as refineries and steel plants, vital for reducing emissions. Countries like the USA and UK already have CCUS projects, and India may introduce similar financial incentives. With high CO2 capture costs in India ($58-60 per tonne), reducing this cost is crucial. As the third-largest CO2 emitter, India aims to cut its emission intensity by 33-35% by 2030. The push for CCUS through financial incentives presents an opportunity for Anup Engineering to expand its market reach, increase demand for its specialized products, and strengthen its positioning in the growing green energy sector.

Opportunities for Engineering Companies Amidst India's Crude Oil Refining Capacity Expansion

The expansion of India's crude oil refining capacity and developments in the sector present significant opportunities for companies like Anup Engineering. As India plans to increase its refining capacity by 56.6 million tonnes per annum through both brownfield and greenfield projects, there will be a substantial rise in demand for engineering solutions, including design, installation, and maintenance of refining units and infrastructure. This growth in refining infrastructure will create opportunities for engineering firms to engage in projects related to new refinery setups, pipeline expansions, and upgrades to existing facilities. Additionally, the need for specialized equipment and technology will drive demand for high-tech solutions, benefiting companies that provide advanced engineering equipment. Long-term contracts for maintenance and support services may also become available, offering a steady revenue stream. Furthermore, the overall growth in industrial sectors driven by increased refining capacity could lead to more projects across various sectors, enhancing business prospects for engineering firms. The favorable market conditions, including high gross refinery margins, will enable clients to invest more in engineering solutions, further strengthening the position of companies like Anup Engineering in the oil and gas sector.

Additional Key growth drivers

- The union budget has proposed a capital outlay of Rs1,18,500 crore for oil and gas companies in FY25, an 11% increase over the budgeted estimate for FY24. This is likely to benefit engineering and engineering, procurement and construction (EPC) companies operating in the oil and gas industry.
- Announcements of new gasification plants provide additional opportunities in engineering for designing and setting up these facilities.
- Rising economic growth and industrialization in developing nations drive continued demand for oil, gas, and petroleum products, supporting growth in engineering projects related to these sectors.
- The shift towards cleaner energy sources also generates opportunities for engineering firms involved in developing and implementing advanced technologies and solutions.
- Growth in industrial sectors and increased demand for engineering services open up both domestic and international opportunities for engineering companies.

Story in Charts (Values in Mn.)

Exhibit 1: Sales

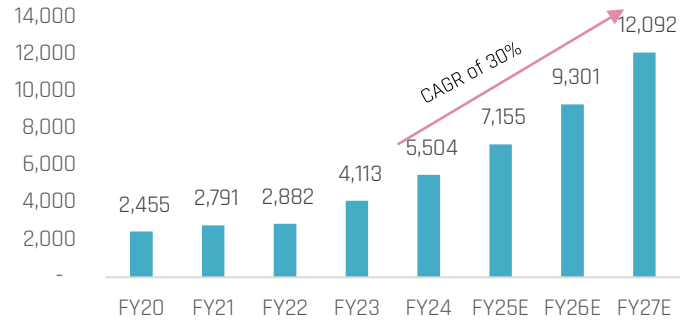


Exhibit 2: PAT & PAT Margin

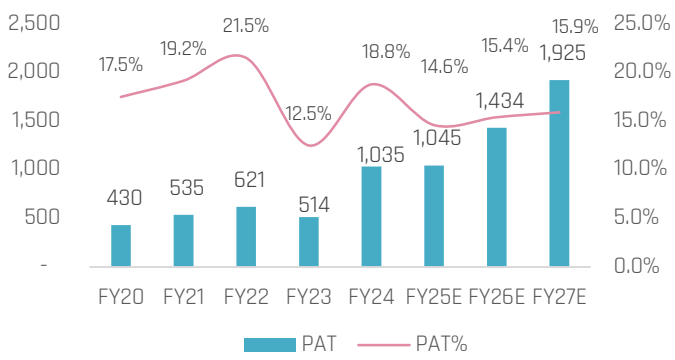


Exhibit 3: EBITDA & Margins

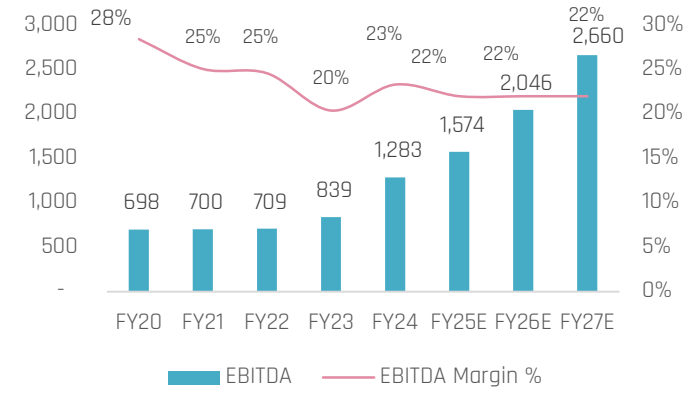


Exhibit 4: Revenue Mix FY24

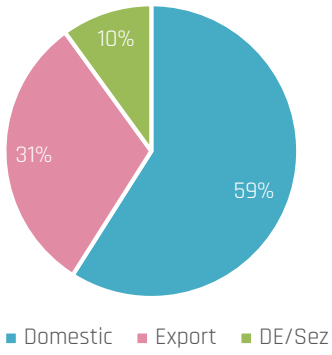


Exhibit 5: Revenue Product wise FY24

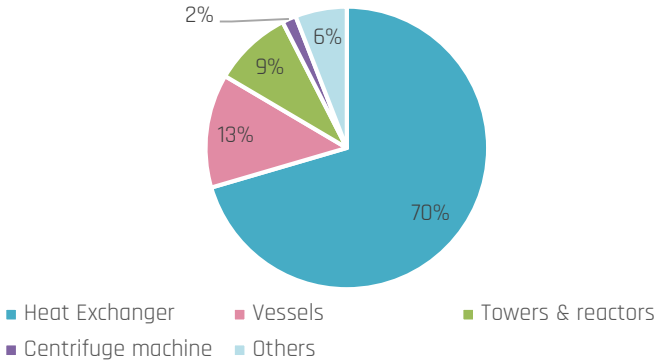
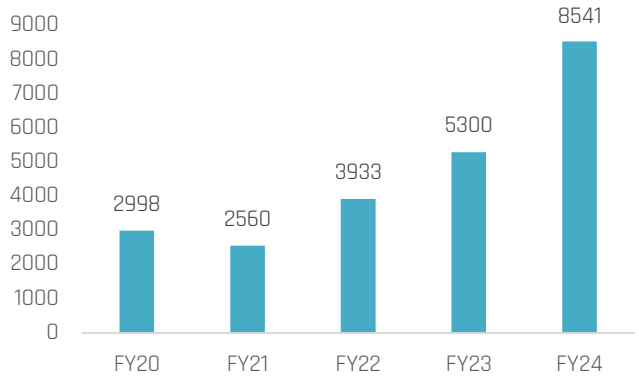


Exhibit 6 Order Book



Source: Company, ACMIIL Retail Research

Financial Statements

Consolidated Profit & Loss Statement:

Particulars (Rs. in Mn.)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	2,791	2,882	4,113	5,504	7,155	9,301	12,092
Expenses	2,092	2,174	3,275	4,221	5,581	7,255	9,432
EBITDA	700	709	839	1,283	1,574	2,046	2,660
EBITDA Margin %	25%	25%	20%	23%	22%	22%	22%
Other Income	36	38	12	91	45	55	65
Depreciation	105	116	125	175	191	160	131
Interest	16	19	26	37	35	30	28
PBT	615	611	700	1,162	1,393	1,911	2,566
Tax	79	-9	186	127	348	478	642
PAT	535	621	514	1,035	1,045	1,434	1,925
EPS (Rs.)	27.22	31.40	26.0	52.0	52.49	72.0	96.7

Source: Company, ACMIIL Retail Research

Risks and concerns

- Concentration of order book towards few products and end-user industry.
- Its custom built equipment business where every product is designed and made to order, labor skills play an important role especially skilled operators. The availability of skilled workforce to fuel the growth aspirations is always going to be a challenge.

ACMIIL Retail Research Products

Informational Products	Recommendation Products
Morning Notes	Momentum calls
Market Watch	Smart Delivery trades
Weekly Technical Synopsis	Positional technical calls
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Market Pulse	Master trades High & Medium Risk
RBI Monetary Policy	Techno Funda
Budget Report	Stock Basket
Weekly Derivatives Synopsis	Mutual fund model portfolios
Rollover Snapshot	Portfolio Doctor
Rollover Analysis (Monthly)	IPO Note
Special Report (Industry/Calendar year/Financial year)	
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