

The Anup Engineering Ltd.

Company Description

Founded in 1962 by Sanjay Lalbhai, Gujarat based The Anup Engineering is one of the top three manufacturers of process equipment in India. Its product line includes heat exchangers, column/towers, pressure vessels, dish ends, expansion bellows and centrifuge. In the initial phase, the company manufactured components of pressure vessels for textile & chemical segments. However, beginning in 2000, Anup forayed into process equipment manufacturing & currently exports to all continents across the globe. The company is an Isro approved vendor and has some esteemed industry names as its clients. Anup is headed by its CEO, Rishi Roop Kapoor, who is an IIT Roorkee pass out and was previously associated with Godrej & Boyce. Earlier, Anup was a subsidiary of Arvind Ltd. As part of the group restructuring, it demerged and was listed separately on the exchanges in March 2019.

Quick History

- Beginning in the 1960s, they mostly manufactured components for pressure vehicles, textile and chemical industry.
- In the 2000s, is when they began manufacturing heat exchangers and process equipment manufacturer
- In 2019, the demerged entity of Arvind Ltd was combined with Anveshan Heavy engineering to form The Anup Engineering Ltd.

Products manufactured

- Static Process Equipment
 1. Heat Exchangers - Heat exchangers are one of the core products made by Anup. They specialise in shell and tube heat exchangers, and have a reputation for high pressure and high/exotic metallurgy exchangers. The range of heat exchangers they offer include, Sulphur Condensers, Bayonet Tube exchangers, Catalyst Coolers, Transfer Line Exchangers, Evaporators, High Pressure Feed Water Heaters, Surface Condensers, Waste Heat Exchangers, Multitube Hairpin Exchangers, RG Boilers, etc.
Considering this occupies the majority of the company's topline, let's dive a bit deeper. Heat exchangers are one of the major parts of process equipment. The primary function of a heat exchanger is to transfer heat from one medium to another. They are generally designed to last 20-25 years. Anup has an agreement with Eminent Technology Providers for fabrication and supply of a special kind of Heat exchanger on a fixed royalty system.

The heat exchanger industry is a USD 21 billion industry globally – used to increase efficiencies. Largest players in the industry include: - Alfa Laval (>30% market share), Kelvion (Germany), Hisaka (Japan), SPX Flow/APV (US), SWEP

(US). High profitability margins with many companies reporting gross margins of more than 45%. Alfa Laval has EBITDA margins of 14 – 15% while its Indian subsidiary also has EBITDA margins of 19%. One of the main reasons for higher margins from Anup is lower headcount in comparison with only 250 workers on roll. They do not hire more on bagging new orders. Anup also has indicated its focus on more complex machinery with higher margins.

Heat exchangers are one of the most efficient options for energy saving. They help in reducing power costs by 20–40%, as they do not require electricity. Thus, the increasing focus on saving energy costs plays an important role in driving the demand for heat exchangers. Following table highlights major applications of heat exchangers in major user industries.

Heat exchangers alone account for 80% of Anup's topline.

Some of their clients for heat exchangers include names such as - Codelco, Reliance, Linde & Petrofac

2. Reactors - They are used in oil and gas refineries, as well as the petrochemical, fertiliser and chemical industries.
3. Pressure Vessels - They offer clad vessels, which are of high thickness and pressure. Their pressure vessels are approved by a majority of the Gas Purification technology licensors for manufacturing critical equipment like PSA & TSA (Pressure swing adsorbers and Temperature Swing Adsorbers)

Some of their clients include - ISRO (the official Indian space programme), Reliance and GSFC (Gujarat State Fertilisers companies)

4. Columns and towers - Mostly used by the energy sector. They make packed and tray towers.
5. Custom Fabrication - They also customise individually, for clients like GSFC & KNPC.

- Technology Products

1. Helix Changer - a shell & tube heat exchanger with helical baffles is a proprietary product of Lummus Technology. These highly efficient exchangers offer major benefits such as lower pressure drop, reduced vibrations, higher heat transfer coefficient and lower footprint over conventional shell & tube heat exchangers. Anup has a tie-up with Lummus Tech for manufacturing Helixchangers.
2. EMBaffle Heat Exchanger - Originally developed by Shell, it's a patented technology owned by Brembana & Rolle, Italy. Anup has the exclusive licence of this technology for the Indian Market.

- Dished Ends

- Engineering Services - Anup also provides engineering services for static process equipment for equipment such as - Shell & Tube Heat Exchangers, Air Cooled Heat Exchangers, cooling coils and pressure vessels for which they provide design services such as Mechanical Design, Fatigue Analysis, 3-D modelling etc.
- Industrial Centrifuges - Anup has a long past with the chemicals, fine chem, starch and pharma industries. They offer the entire range of Industrial Centrifuges from basket centrifuges to horizontal peeler centrifuges.

Capacity

- Anup has a manufacturing facility in Ahmedabad, India - spread across an area of 45,000 sq. mtrs. They have 6 heavy and 4 light fabrication bays. They can manufacture equipment from 20 Mega Tonnes to 450 Mega tonnes in weight up to 8 metres diameter, 100 metres length, 200 mm thickness and 1000 mm thick tube-sheets.
- In terms of welding, they are well equipped with over 1800 welding procedures under their belt.
- They handle multiple ranges of metallurgies - Carbon Steel, Stainless Steel, Low alloy steel, titanium, Inconel etc.
- The Mundra port is 400km away. Kandla Port is 350 km away and the Mumbai Port is 550 Km away.
- Their qualifications and certifications include - ISO 9001:2008, ISO 14001:2004 and BS OHSAS 18001:2007 certified, and have statutory compliances with country specific regulations such as PED/CE, SANS, GOST TR-CU, DOSH and MOM.
- Their Client Base is well diversified and has clients around the globe, with high profile MNCs and major Public sector companies in India. 25 countries in total
- They have delivered on time to clients 95% of the time.

Competitive advantage

- Given the size of the industry, there are very few players who exclusively serve the process equipment market. Total ~80% of Anup's topline comes from heat exchangers. The company specialises in process equipment and has no other business segments unlike competitors such as L&T, Godrej & Boyce and ISGEC Heavy. This allows Anup to focus better and have a competitive edge. Their CEO, Rishi Roop has previously worked for Godrej and Boyce.
- The industry has strong entry barriers and new players basically never scale up.
- India has recently pushed capex spends in sectors such as oil & gas, petrochemicals, specialty chemicals. Management sees many opportunities in petrochemicals, specialty chemicals and LNG plants. Over 10,000 crores(\$1.5 Billion) of capex is expected for LNG terminals.
- Medium term(2-3 years) growth in heat exchangers to be supported by new emission norms (BS-6) that would require modification/revamp of heat exchangers currently deployed in oil refineries.

- Anup has an esteemed clientele with a high 85% of repeat orders. They deliver to Mitsubishi, EIL, GE and are an approved vendor for ISRO(Indian Space Research Organisation).
- In the past 5-6 years revenue and topline grew at rates in excess of 20%, purely from enhancement of product mix.
- Might be a proxy play to green hydrogen, as it already services clients such as Linde, and Reliance and BASF

Expansion and Targets

- Company has an increasing focus on the export market so as to reduce the cyclical nature in the domestic Indian markets. The % of exports in their sales increased to 15%. Orderbook has 24% exports. The company also expects to foray into the U.S with new capex, to capture the replacement market share. As aforementioned, the global heat exchanger market is about \$18 Billion out of which the replacement market is \$5 Billion
- Increasing complexity and weight of the products manufactured(pre-demerger numbers) with average equipment value going from 38 lakhs(50k USD) in FY2013 to 96 Lakhs(125,000 USD). They are looking to continue with more exotic technologies and exotic metals like titanium.
- Currently the company can only execute orders upto 450 MT at Ahmedabad facility. Capacity constraints limited Anup from bidding for larger high value orders, so, the company recently commissioned a heavy bay at Odhav facility that allows it to take larger & more complex equipment orders at the said facility. The capex at Odhav is a Brownfield capacity of 150 crores(\$20 Million). Once the brownfield capex is done the company envisages topline to increase to 500 crores(\$70 Million). The new expansion will add 150 crores(\$20 Million) to existing capacity at Odhav. The expansion is set to be complete in Q4 FY2022 or Q1 FY2023. One thing to note, is that the facility at Odhav has been delayed for 3 quarters after the effects of Second wave of Covid got over.
- Anup is also undertaking a Greenfield capex incurring 200 crores(\$28 Million) in Kheda, Gujarat which is to be commissioned in 3 phases. This capacity will be able to manufacture equipment of 1000 MT in size. The commission time for the phase of the Kheda Project was disrupted due to Covid-19. Once all the phases of Kheda are commissioned, management envisages 450-500 crores(\$65 Million) of topline from here alone. Each phase has a revenue potential of 150 crores(\$21 Million). The first phase is to happen in FY2023, the second phase in FY2024, and the third in FY2025. The construction at Kheda began in September 2021.
- In total with all the new Capex, management has a target of 1000 crores(\$150 Million) in topline by FY2025 and 750 crores(\$100 Million) by FY2024 and EBITDA margin guidance of 24%.

Gimme the numbers please - Valuation

- Debt free balance sheet.

Looking out for potential delays in ongoing Capex, I have built out 3 cases for the company.

Base Case - Topline to grow from 321 crores to 850 crores by FY2025, growing at a CAGR of ~38%. With EBITDA margins of 22%(from 25%), it implies EBITDA of 185 crores. Valued at 10x EV.EBITDA it implies EV of 1850 crores from the current Enterprise Value of 823 crores. Company trades at a forward(FY2025) EV.EBITDA of 4.8x.

Bear Case - Topline to grow from 321 crores to 650 crores by FY2025, growing at a CAGR of ~25%. With EBITDA margins of 16%, it implies EBITDA of 106 crores. Valued at 8x EV.EBITDA, it implies EV of 800 crores. Company trades at a forward(FY2026) EV.EBITDA of ~ 8.

Bull case - Topline grows to 1000 crores by FY2025(as per management plan), growing at a CAGR of 46%. With EBITDA margins at 24%(as guided), it Implies EBITDA of 250 crores, valued at 10x EV.EBITDA it implies EV of 2500 crores. Company trades at a forward(FY2025) EV.EBITDA of 3.5x.

Risks

- Previous capex cycle of heat exchangers in 2003-2007, GEI industrial systems, a major heat exchanger company, is now delisted. Not a great industry due to the long life span of such process equipment(although it is a growing industry).
- Lumpy business: Due to the nature of its business, quarterly revenue and margins are dependent upon deliveries made to customers so revenue can remain volatile on a quarterly basis based on dispatches and orders in hand.
- Margin concerns going forward. A competitor in the same arena, has its topline go from 60 crores in FY2009 to 237 crores in FY2020 but the PAT in the same timeline has gone from 7 crores to 11 crores. Anup needs to maintain the margins, although management seems confident. Strong operational performance from Anup in the past few years with regards to OPM provides comfort.
- Delays in Capex could hurt medium term growth prospects.