The Anup Engineering

Operator: Good afternoon, and welcome to the Q1 FY27 earnings conference call of The Anup Engineering Ltd. As a reminder, all participant lines will be in 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 the operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

Before we proceed with the call, let me remind you that the discussion may contain certain forward-looking statements that may involve known or unknown risks, uncertainties, and other factors. It must be viewed in conjunction with the business risks that could cause actual results, performance, or achievements to differ significantly from what has been expressed or implied in such forward-looking statements.

Please note that the company has uploaded the results press release, investor presentation, and the outcome of the board meeting on the websites of the stock exchanges and on the company's website. I now hand the conference over to Mr. Reginaldo D'Souza, Managing Director and CEO of the company. After Mr. Reginaldo D'Souza's speech, Mr. Punit Lalbhai, Chairman and Non-Executive Director of the company, will provide insights into the company's performance. Thank you, and over to you, sir.

Reginaldo D'Souza – MD & CEO: Thank you. Hello, everyone. Warm greetings to all members present on this call.

As you may be aware, we entered the year with a very uncertain and volatile global situation in terms of wars and critical sea-route disruptions for commercial trade, impacting energy costs, disrupting the supply chain, and raising input costs substantially. This necessitated a tough balance between execution and profitability. As I mentioned during the last call, we delayed new order intake last year to wait for relatively better margins than what the market offered at that point in time. We also had to realign our execution to match the supply chain and prioritize accordingly, in line with contractual deliverables. Hence, we planned a gradual start for the year with Q1 and a progressive move over the next 3 quarters towards our annual plan.

For Q1, we achieved consolidated revenue of 125 crores, in line with our plan. EBITDA was at 9.2 crores. The result on the margin is simply a reflection of the lower revenue generation and absorption of fixed costs in the first quarter. Operating expenses are as planned and under control. The low revenue plan for Q1 is mainly due to the delayed start of execution on account of the delayed order intake mentioned above and the supply chain challenges. Although execution started late in the quarter, revenue could not be recognized because the milestones were not reached. Now, as we progress with execution, revenue for these projects will be recognized in the coming quarters, in line with our annual plan.

In terms of exports, the export-to-domestic ratio continued at almost 50-50%, in line with our strategic intent. On the new order-booking front, I think we saw a very significant improvement this year, especially over the last 2 months. The pending order book, as of the date we speak, stands very close to 1,000 crore—985 crores, to be precise—with new orders of 538 crores booked in this financial year, from April to date. This means that we have already booked around 240 crores for Q1

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of next year. This has been the best-ever start for us in terms of the order book. As we see inquiries shaping up to about 1,100 crores, we are confident that more opportunities will emerge, improving order booking further and helping us secure our revenue plan for next year.

As I mentioned in the last call, as we navigate the execution cycle with due consideration to the current uncertain global business scenario caused by wars, geopolitics, and elevated input costs, FY27 will be a year in which we focus on stabilizing and strengthening our fundamentals, consolidation, and risk protection. The focus will clearly be on protecting margins to the extent possible under the current cost pressures and mainly maintaining healthy cash flow. Further, we had refrained from providing any guidance for the year in the last call because we wanted to ascertain the real-time situation regarding our execution philosophy, considering the supply chain challenges, margin position, and contractual deliverables to our customers.

After analyzing the current situation, we wish to provide guidance for the year of consolidated revenue growth of 5-10% and EBITDA of about 15%. The projected EBITDA considers the costs committed to projects under the current circumstances. We will try to improve this as we progress with execution. I understand that this guidance sounds conservative, but we believe this is a good approach in the current circumstances, where the right balance between profit and project delivery is essential.

As we navigate through the year, a lot of effort has gone into our future growth strategies. There have been a few good developments in the last quarter, in line with our broader strategic roadmap. As articulated earlier, we have the strategic focus of entering critical and proprietary licensed products to spur our revenue growth within the given capacity, which will also improve our order conversion rate. In line with this, we have successfully managed to become qualified and have also secured orders for 2 critical proprietary licensed products, both for the export market and for reputed process licensors. We will continue our efforts towards entering niche products over the next 3 quarters.

We have also started our long-awaited air-cooled heat-exchanger manufacturing with an important order for a German client. We have also made substantial progress in our thermal power business, with good order intake of over 150 crores. There are a few other strategic focus areas that we wish to close in this year, moving ourselves into niche product segments and driving our future growth.

We believe that once the war and uncertainty settle, the disruptions and destruction will eventually lead to 3 things. First, energy-security measures by all countries will lead to new investments and expansion in the energy sectors within those countries. Second, there will be repair work for all the damaged refineries, gas plants, tanks, and pipelines. This can bring about a lot of repair work for fabricators like us. Third, we see an accelerated push towards non-conventional energy sources, including nuclear and other renewables.

With our capacities now in place and our capabilities spread across shop fabrication, site fabrication, and technical services, I think we as a company are in the right position to capitalize on this demand as it materializes. I also wish to mention that we have built a strong organization to drive these business verticals, which should support our future growth.

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As mentioned in my last call, I wish to reiterate that with our Kheda facility, which is our larger facility, now fully operational, and with our strategic move towards complex equipment manufacturing, we will be taking orders with longer cycles, perhaps averaging around 12 months. Hence, it is natural that you will see fluctuations in quarter-on-quarter numbers, but over the year they should normalize.

Let me end by saying that we at the management and the board have deeply thought through the scenarios and decided on our actions to achieve our business plan for this financial year. With these opening remarks, I wish to thank you all for your patient listening, and I now hand it over to Punit Lalbhai for his comments. Thank you.

Punit Lalbhai - Chairman & Non-Executive Director: Good afternoon, everyone. It is a pleasure to be on this call. I would just like to share my brief perspective on this quarter's performance and how I see things going forward.

I know many of you would think that this quarter's performance is short of the mark, and you are not wrong. However, this performance is the result of actions that happened almost a year ago, when there was a significant shortage of orders in the marketplace and we had low order booking. It is also the result of many things coming together, including the fact that this year we have an order book skewed towards the second half, where we have longer-lead-time items that will mature towards the second half of the year.

That said, I am extraordinarily encouraged by the fact that we have started this year with almost the best-ever order book that we have seen in the recent past, and that gives me a lot of confidence for the future. I think the team, with Regi at the helm and leading from the front, has done a great job navigating very uncertain times, significant variations in input costs, massive variations in freight, and a prolonged period last year when there were order cancellations and uncertainty due to tariffs, which were subsequently normalized. This entire period has been navigated extremely well.

Further adding to my confidence are the last 3-4 months, during which new order intake has been very close to our historic margin. Of course, there is a portion of the order book that was taken at a time when we had a very low project pipeline. We will see the effect of that this year. However, the order book that is now building is very healthy and robust, which indicates that the future is returning to our expected path and to a path of growth.

I think it is important to use this year as a consolidation year in which we rebuild the order book and focus on all the important initiatives that Regi outlined. These initiatives diversify the company towards next-generation segments, which will reduce our dependence on oil and gas and petrochemicals going forward.

I would like to reiterate that I have full confidence in the team, and the efforts that they are all putting in will start to bear fruit. The results should start becoming visible this year itself, especially in the second half. With that, I would like to close my comments and open the floor for questions and answers. I request Regi to field the questions. Thank you.

Operator: Thank you so much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on

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their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Sameer Thakur with Ambit Capital. Please go ahead.

Sameer Thakur – Ambit Capital: Hi. My first question is: what should we think about the order run rate going forward? That is the first question. I will ask the second one after this.

Management: Okay, Sameer. As I mentioned, considering the last 3 months of strong order intake and the fact that the inquiry pipeline is even stronger, close to about 1,100 crores, what we foresee is that going forward, order intake should be in the range of 200 to 250 crores per quarter. That has been our plan, and I believe we can achieve that in the coming quarters.

Sameer Thakur – Ambit Capital: Okay, thank you. I also wanted to know about the strategy regarding services. You used to talk about high-volume products, but I think you are focusing on long-cycle products again. So, is the strategy changing now, with a focus on long-cycle products rather than high-volume, short-cycle products?

Management: No, Sameer, we are maintaining the same strategy that we mentioned at the end of the year. Our stronger vertical, of course, is the legacy product business, which has a mix of complex, critical, and long-gestation equipment. We want to enter niche segments because that improves our win rate and also gives us a better margin profile.

We will continue with this as a stronger vertical, but at the same time, we will continue to focus on our volume products. If you look at the air-cooled heat exchangers that I mentioned, they will fall into the high-volume, moderate-margin category, with roughly 15% margins, but high volume. The {? Cheddar ?} operations give us the opportunity to manufacture and supply these large-volume items.

So, to give a direct answer, we will continue to focus on our stronger vertical, with the legacy product business and niche segments, while also focusing on our higher-volume products and the services sector. The technical-services business forms the third vertical and gives us higher margins.

Sameer Thakur – Ambit Capital: Okay, thank you. Regarding technical services, is that improving? Have you seen an improvement in that segment over the last few quarters, or is it still under development and should we look at it after the year-end?

Management: No. As I said in the last call, we did the logistics to understand where we stand, and the result has been extremely encouraging. We have gone all out into this financial year with an organization already created and a senior person heading that vertical.

Of course, revenue will take time because we will have to do some groundwork in the early part of the year. For this year, we estimate that business volume at about 25 crores to start with, but it will give us margins of above 30%. Next year, we will scale it up to 100 crores, and, as I said, in the third year we intend to have this vertical at 200 crores.

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Sameer Thakur – Ambit Capital: [inaudible] I think you have been selective in taking orders. Is there a risk of losing market share if lower-tier players start coming in and taking orders at lower margins? Do you see that risk going forward?

Operator: I am sorry to interrupt you, Sameer, but your voice is breaking again.

Sameer Thakur – Ambit Capital: Hello?

Operator: Sameer, your voice is still breaking. Can you hear us?

Sameer Thakur – Ambit Capital: I can hear you. Can you hear me?

Operator: Yes, yes. Now we can.

Sameer Thakur – Ambit Capital: I was saying that it looks like you have been selective in taking orders. Is there any risk of losing market share if lower-tier players start coming in and taking orders at lower margins? Do you see that risk going forward?

Management: As long as we continue to remain in the product segment in which we have historically operated, the answer is yes. That is the precise reason why we are taking a step forward to move into niche segments, so that we can overcome that competitor profile and move one step higher.

If you have heard me over the past few years, our strategy has always been that, as long as the market allows us to remain in that profile, we will continue and prepare ourselves to move into the niche segment. I think that is where our strategy for this year strongly holds. We wish to move into niche segments to overcome that competition.

Sameer Thakur – Ambit Capital: Okay, thank you. I will get back in the queue. Thank you.

Management: Sure, thanks.

Operator: Thank you. Our next question comes from the line of Gopal Krishnan with Opportunity Investment. Please go ahead.

Gopal Krishnan – Opportunity Investment: Thank you for the opportunity, sir. I have the following questions. First, regarding interest cost, when I compare it with last year, it has almost doubled. It has increased from around 87 lakhs to almost {? 1.3 to 1.7 crores ?}. Is there any specific reason why this has happened?

Second, regarding the orders that we have received in FY27, are they under fixed-price contracts, and will we be impacted by higher raw-material prices that we cannot pass on to the customer? Is that the reason why you are guiding for the lowest EBITDA margin in recent history? That is all.

Management: Thank you for the question, Mr. Gopal Krishnan. Regarding your question on the order book for FY27, yes, all our contracts are mostly fixed-price contracts. The guidance that we provided on EBITDA considers the input costs under the current circumstances. From that perspective, there is no cost pass-through to the customer. It is a fixed-price contract, and we are able to ascertain our EBITDA margins to a great extent.

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Nilesh – CFO: Nilesh here, CFO Tema. Regarding the finance-cost component, if you look at Q4 FY26, it was {? 221 lakhs ?}, which has reduced to 161 lakhs. In Q1 last year, we had a cash-positive balance, which was reduced and led to a negative balance and a loan position. Now, that has reduced to almost zero.

As we speak today, our cash balance is roughly 45 crores, and long-term debt is roughly 44 crores. Net-net, it is a positive position of 1 crore, which was not the case at the beginning of the year. That is the reason for the change in finance cost.

Gopal Krishnan – Opportunity Investment: But actually, last year, in the same quarter, it was only 87 lakhs.

Nilesh – CFO: Finance cost cannot be compared on a quarter-on-quarter basis. It depends on the cash balance we have. On April 1, 2025, we were cash positive, and only a very limited portion of the loan was used during Q1 last year.

If you look at Q4 last year, we had used a larger amount of the loan, so the interest cost was higher, up to 2.21 crores. Now that loan balance has reduced, and the cost is 161 lakhs. In the coming quarter, Q2, we probably expect this to be one-fourth of what it is currently. In fact, we are moving to a cash-positive position as we speak today.

Gopal Krishnan – Opportunity Investment: Okay, thank you.

Management: Thank you so much.

Operator: Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press star and one. Our next question comes from the line of Nesar with Native Invest. Please go ahead.

Nesar – Native Invest: Hi. Thank you for taking the question. I want to understand your comment that you are trying to diversify away from oil and gas. Is this also partly because we believe that the oil and gas capex cycle seems to have played out, and is some softness in demand also flowing through into our order book?

Management: Nesar, the diversification plan is not based on that context. Our conventional oil and gas, fertilizer, and thermal power businesses have very strong traction. What we believe, and what we have been articulating in our strategy, is that about 1,000 crores is something that we will continue to do from our conventional business because we see good traction continuing for at least the next 10 years, if not more.

However, we need to prepare for the future, and that is why we are saying that we want to have a sizeable portion of our turnover coming from newer sectors. When we refer to newer sectors, we mean nuclear, where we have already made a beginning last year, so we want to move more strongly into nuclear as a comparatively cleaner source.

We want to move further into the hydrogen business and into the green-fertilizer business. We are also looking at certain AI data-center cooling systems where we can provide support. These diversifications are for our long-term future, perhaps 3 years onward. In the short term, it is purely oil and gas, petrochemicals, and fertilizer, where we see extremely good traction.

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With what is happening in the world today, as I mentioned in my opening remarks, we see at least until 2030 a whole host of projects in India, especially in the Middle East and some parts of Africa, which will drive this demand at least until 2030. The entire diversification plan is part of our strategy to prepare ourselves for the future.

Nesar – Native Invest: Right. But, sorry, on that point, in terms of the softness that we are seeing in demand, how should we view this year? We are saying that it will be weighted towards the second half, and in the last conference call, even in May, we did not really get the sense that Q1 was going to be this weak when you were already two-thirds of the way through the quarter. If you can give us a more frank sense of the year, especially Q2 and H2, that would be very helpful.

Management: As we speak today, as I said, we have an opening order-book position of 985 crores. This means that we have the complete order book that we planned for this financial year.

The way we selected which projects would be executed this year depends purely on the deliverables that we have to meet for customers, based on our contractual delivery dates. We therefore have a complete overview of which projects we are going to execute in this financial year.

Because we had a delayed start in Q1 for the reasons that I mentioned in my opening remarks, we could not complete the milestone for revenue recognition in Q1. As we progress, this will happen in Q2, Q3, and Q4. It will be a gradual progression, with Q3 and Q4 being the highest in terms of revenue generation and, consequently, EBITDA margins.

Overall, considering the EBITDA margin for Q1 at this level, when we say we are going to achieve around 15% EBITDA, Q3 and Q4 will obviously be higher for us to arrive at an average. These are all worked-out numbers, which will gradually improve from Q2, with the highest levels in Q3 and Q4.

Nesar – Native Invest: Right. One follow-up: you mentioned that these are fixed-price contracts, and that you take 6-8 weeks to work out the material requirements before placing the order. To that extent, do you not hedge during the interim? Why do we have to bear the cost of fluctuations in raw materials? Do we not hedge?

Management: For us, every item is custom-made. These are not commodities. Every item is specifically made for a project on an order-to-order basis. As you know, in India we generally have only 2 mills that we buy from: AMNS ArcelorMittal and Jindal.

Regi Varghese: {? These are the two broad news. ?} Of course, we import 10-15%, or roughly a maximum of 20%, but our supply chain for plates is largely in India. Since the items are custom-made and specific to an order, we have to complete the design first, which takes about 4-6 weeks.

Those designs need to be approved by the customer. Only when the customer stamps the design as approved can we proceed. Otherwise, we would be taking the risk of purchasing the material if the customer provides comments or does not approve the design that we submit. Therefore, we necessarily have to wait 4-6 weeks, mainly because of the time required for customer approval of the design.

Operator: Thank you.

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Punit Lalbhai – Chairman & Non-Executive Director: I would just like to jump in for a second, Regi. There are several questions around softness of demand. The softness of demand occurred last year for 2 quarters, which is why it is affecting Q1 this year.

As of now, there is no softness in demand. In fact, demand is very robust, which is why there is confidence in the future. When you have longer-gestation items, sometimes the due dates do not fall evenly across the 4 quarters. This year, most of the due dates happen to fall in the second half of the year, which is why revenue recognition is as it is.

The entire order book for this year is actually quite full, and we are at capacity. I just wanted to reinforce Regi's words with that summary in slightly different language for those who might benefit from that clarification. That is what I wanted to add in response to some of the questions around demand.

Regi Varghese: Yes, thanks, Punit. To add to that, since we have a strong inquiry pipeline of about 1,100 crores on hand as of today, that should provide confidence regarding the demand available in the market.

Operator: Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press star and one. Our next question comes from the line of Mohit Surana with Monarch Network Capital Limited. Please go ahead.

Mohit Surana – Monarch Network Capital Limited: Thank you for the opportunity. I have just one question. Out of your total export order book of 380 crores, can you provide a breakdown by country? How much is from the United States, how much is from the Middle East, and how much is from other countries?

Regi Varghese: Out of the 380 crores, let me give you the precise numbers. Around 50 crores is for the United States of America. Roughly 60 crores is for Africa, largely Nigeria. The balance is all for the Middle East, a substantial portion of which is for Abu Dhabi National Oil Company, or ADNOC.

Mohit Surana – Monarch Network Capital Limited: Is it fair to assume that if the Middle East crisis continues for, say, the next 3 months, we will continue to face logistical challenges?

Regi Varghese: To be frank, if there are large-size ODC equipment shipments, the only route to these facilities is through the Strait of Hormuz, which is in doubt today.

However, for the size of heat exchangers that we make in Odhav, especially, there is no such limitation because they can take a different route and travel by road to ADNOC, which has already been done. We have dispatched many pieces of equipment. Only massive ODC shipments generally cannot pass. I hope I have answered your question.

Mohit Surana – Monarch Network Capital Limited: Understood, sir. That is helpful. Just one thing: when taking the longer route, is the higher freight cost passed on to the customer, or is that something we have to absorb?

Regi Varghese: That cost is borne by the customer because 99% of our contracts are FOB India port. Therefore, it is all handled by the customer.

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Mohit Surana – Monarch Network Capital Limited: Understood. Thank you, sir, and all the best for the future. Thank you.

Regi Varghese: Thank you so much, Mohit.

Operator: Thank you so much, sir. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Regi Varghese for his closing comments. Thank you, and over to you, sir.

Regi Varghese: Thank you all for your interesting questions. I hope Punit and I were able to clarify your questions. In case you have any further queries, please feel free to connect with us, and we will be happy to respond.

I take this opportunity to thank my resilient team at The Anup and each and every stakeholder helping us deliver results in these difficult times. A big thank you to all our well-wishers for your trust and support, as always. Thank you, and take care.

Operator: Thank you so much, sir. Ladies and gentlemen, on behalf of The Anup Engineering Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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