Management Discussion

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
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, critical sea route disrupted for commercial trade, impacting energy cost, disrupting supply chain, and raising the input cost substantially, necessitating a tough balance between execution and profitability. As I mentioned during the last call, we delayed the 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, and hence planned a gradual start for the year with quarter 1 and progressively moving over the next three quarters towards our annual plan.

For the quarter 1, we achieved a consolidated revenue of 125 crores in line with our plan. The EBITDA was at 9.2 crores. The result on margin is simply a reflection of the lower revenue generation and absorption of the fixed cost in the first quarter. The operating expense is as planned and under control. The low revenue plan for quarter 1 is mainly due to delayed start of the execution on account of the above-mentioned delayed order intake and the supply chain challenges. Though the execution started late in the quarter, the revenue could not be recognized as the milestones were not reached. Now, as we progress into the execution, the revenue for these projects shall be recognized in the coming quarters in line with our annual plan.

In terms of export, the export-to-domestic ratio continued at almost 50% to 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 two months. The pending order book as on date as 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, that is from April to till date in this financial year. This means that we have booked around 240 crores already for the next year quarter 1. This has been the best ever start for us on order book. And as we see the inquiries shaping up to about 1,100 crores, we are confident that more opportunities will emerge improving the order booking further, helping us secure our next year revenue plan.

As I mentioned in the last call, as we navigate the execution cycle with due consideration to the current uncertain global business scenarios due to wars, geopolitics, and thereby elevated input costs, this year FY27 will be a year where we focus on stabilizing, strengthening our fundamentals, consolidation, and risk protection. Focus shall clearly be on protecting margins to the extent possible under the current cost pressures and mainly maintaining a healthy cash flow.

Further, we had refrained from providing any guidance for the year in the last call as we wanted to ascertain the real-time situation on our execution philosophy considering the supply chain challenges, margin position, and contractual deliverables to our customers. After having analyzed the current situation, we wish to provide a guidance for the year of a consolidated revenue growth of 5 to 10% and an EBITDA of about 15%. The projected EBITDA is considering the cost committed to projects under the current circumstances. We will try to make this better as we progress into the execution. I understand this guidance sounds conservative, but we believe this was a good approach in the current circumstances where a right balance between profit and project delivery is essential.

Now, as we navigate through the year, a lot of efforts have gone into the future growth strategies.

There have been some few good developments in the last quarter in line with our broader strategic roadmap. As articulated earlier, we have the strategic focus of getting into critical and proprietary license product to spur our revenue growth within the given capacity and which shall also improve our order conversion rate. In line with this, we have successfully managed to get ourselves qualified and also bag orders for two critical proprietary license products both for export markets for reputed process licenses. And we shall continue our efforts towards getting into the niche products in the next three quarters.

Also, we have started our long-awaited air-cooled heat exchanger manufacturing with an important order for a German client. We have also made substantial progress on our thermal power business with good order intake of over 150 crores. There are a few other strategic focus areas where we wish to close in this year moving ourselves into niche product segments driving our future growth. We believe that once the war and uncertainties settle, the disruptions and disruptions will eventually lead to three things: 1.Energy security measures by all countries leading to new investment and expansion energy sectors within the countries. 2.Repair works for all the damaged refineries, gas plants, tanks, and pipelines, so this can bring about a lot of repair work for fabricators like us. 3.We see accelerated push to non-conventional energy sources including nuclear and other renewables.

So with now our capacities in place and capabilities spread over shop fabrications, site fabrication, and also our technical services, I think we as a company are the right phase 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. As mentioned in my last call, I wish to reiterate that with our Kheda, which is our bigger facility now fully operational and we are strategically moving to complex equipment manufacturing means we will be taking orders of longer cycle, maybe average around 12 months.

Hence, it is natural that you shall see fluctuations on quarter-on-quarter numbers, but over the year it should normalize. Let me end by saying that we at the management and board have deeply thought through the scenarios and decided on action to achieve our business plan for this financial year. So with these opening remarks, I wish to thank you all for your patient listening and I now hand it over to Puneet Lalbhai for his comments. Thank you and over to you, sir.

Unidentified Participant

Good afternoon, everyone. It's a pleasure to be on this call. I just wish to share my short perspectives on this quarter's performance and how I see things going forward. I know many of you would think that this performance this quarter is short of the mark, and you are not wrong. However, this performance is the result of actions that have happened almost a year ago when there was a very large dearth of orders in the marketplace and we had lower order bookings. Also, it is a coming together of many things where we have this year an order book that is skewed towards the second half where we have longer lead time items which will sort of mature towards the second half of the year.

That said, I think 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 Reghu at the helm leading from the front has done a great job in navigating very uncertain times. Great variations in input costs, massive variations in freight, a prolonged period last year where there were order cancellations and uncertainties due to tariffs which were then subsequently normalized. So all this period has been navigated extremely well. And further adding to my confidence is the last three to four months where the new order

intakes have been very close to our historical margins. Of course, there was a lot of order books, part of the order book that is there that was taken at a time when we had a very low project pipeline. So this year we'll see the effect of that.

However, the order book that is now building is very healthy and robust which points to the future being back to sort of our expected past and back to our path of growth. I think it is important to use this year as a consolidation year where we build the order book back, where we focus on all the important initiatives that Reghu outlined, that diversify the company towards next-generation segments that will reduce our dependency on oil and gas and petrochemicals going forward. So 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, especially the results should start being visible this year itself in the second half. With that, I would like to close my comments and open the floor for question-answers. I request Reghu to field the questions. Thank you.

Questions & Answers

Operator
Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press star and one on their touchstone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handset while asking question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question comes from the line of Sameer Thakur with Ambit Capital. Please go ahead.

Sameer Thakur - Analyst, Ambit Capital
Sameer, I'm really sorry, but your voice is breaking.

Operator
Are you using any... Yes, please go ahead, please.

Sameer Thakur - Analyst, Ambit Capital
Yes. So the first question is what should we think about the orders run rate going forward? That's the first one.

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Yeah, Sameer, so as I mentioned, considering the last three months of good runs of the order intake and the fact that the inquiry pipeline is even stronger, close to about 1,100 crores, what we see is going forward the order intake position 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 next quarters.

Sameer Thakur - Analyst, Ambit Capital
Okay, thank you. And I just wanted to know what's the strategy regarding service and you also used to talk about this high volume products. But I think again you are focusing on long-cycle products again. So is that strategy changing now? That focusing on long-cycle products rather than high volume short cycle?

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
No. So Samir, we keep that strategy same what we mentioned at the end of the year. Uh, our stronger vertical of course is the legacy old product, uh, which has a mix of complex, critical, and

long gestation, uh, equipment. Why we wish to get into niche segments is because that improves our win rate and also gives us better margin profile. So we keep that going as a stronger vertical, but at the same time, uh, we continue to focus on our volume product. So if you look at the air-cooled heat exchangers that I mentioned, uh, that is, that is in the bucket of high volume.

Moderate margin, roughly about 15% margin, but high volume. And with Keda operational, that gives us the opportunity to manufacture and supply these large volume items. So, so a direct answer, we continue to focus on our stronger vertical with the legacy old products with niche segments, and also at the same time focus on a higher volume and the service sector, which is the technical services, which forms the third vertical, which gives us higher margins.

Sameer Thakur - Analyst, Ambit Capital
Okay, thank you. Technical services, is that improving, have you seen improvement in that improvement in that segment in the last few quarters or it's still in development and we should look at it probably after a year or so?

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
No, so we, as I said in the last, we did a district to understand where we stand, and the result has been extremely encouraging. So we have gone all out into this financial year with an organization already created with a senior person heading that vertical. Of course, the revenue because we have to do some leg work in the early part of the year, so for this year we pegged that business volume at about 25 crores to start off with. But of course, it will give us anywhere about 30% margin. Next year we roll it up to 100 crores and as I said, the third year we intend to have this vertical at 200 crores.

Sameer Thakur - Analyst, Ambit Capital
Okay, thank you.

Operator
Mr. Sameer, your voice is breaking.

Sameer Thakur - Analyst, Ambit Capital
Hello?

Operator
Mr. Sameer, your voice is still breaking, can you hear us?

Sameer Thakur - Analyst, Ambit Capital
I can hear you, can you hear me?

Operator
Yes, yes, now.

Sameer Thakur - Analyst, Ambit Capital
Yeah, yeah. So I was saying that it looks like you have been selective in taking orders. So 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?

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Yeah, so as long as we continue to remain in the product segments that we were operating

historically, the answer is yes, and that's the precise reason why we are taking a step forward to move into niche segments so that we can beat that competitor profile and move one step higher. If you've heard me in the past few years, our strategy has always been as long as the market allows us to remain in that profile we'll continue and prepare ourselves to move into the niche segments. And I think that's where our strategy for this year strongly holds, that we wish to move to niche segments to beat that competition.

Sameer Thakur - Analyst, Ambit Capital
Okay, thank you, I'll get back in the queue. Thank you.

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

Gopal Krishnan - Analyst, Oothu National Investment
Yeah, thank you for the opportunity, sir. I have the following questions. First is the interest cost when I compare the last year, it has almost doubled from around 87 lakhs, it has gone to almost 1.6, 1.7 crores. So is there any special reasons why it has happened like that? That is one thing. And then the second thing is the orders that we have got in in FY27, are they under fixed price contracts and we will be impacted by higher raw material price which we cannot pass on to the customer? At least that's the reason why you are guiding for the lowest EBITDA margin in the recent history. That's all.

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Yeah, so thanks for your question, Mr. Gopal Krishnan. On your question for order book in FY27, yes, all our contracts are mostly fixed price contracts, and the guidance that we provided on the EBITDA is considering the input cost in the current given circumstances. So from that perspective, there is no cost passed on to the customer, it's a fixed-price contract, and we are able to ascertain our EBITDA margins to a great extent.

And Nilesh here, CFO at Anup. On the finance cost part, if you look at last few for FY26, it was 221 lakhs which is reduced to 161 lakhs. So in a Q1 last year, we were having a case positive balance which is reduced and which was a negative to a loan and now it has reduced to almost a zero stage. Today our cash balance is roughly 45 crore and long-term debt is roughly 44 crore. So net case is a one crore positive, which was not the case at the beginning of the year, that's the reason why there is change in the finance cost.

Gopal Krishnan - Analyst, Oothu National Investment
Oh, but actually last year it was only 80 the same quarter it was only 87 lakhs.

Nilesh Hirapara - Chief Financial Officer, The Anup Engineering Limited
In a scope it can't be compared on quarter on quarter, it depends on the balance cash balance we have. So in a Q1, if you look at the 1st April 2025, we were cash positive and very limited portion of loan was used during the Q1 last year. If you look at the Q4 last year, we had used the more amount of loan so the interest cost was high up to 2.21 crore. Now that balance of loan has reduced, it's a 161 and in Q2 in the coming quarter Q2 probably we expect this to be 1/4 of what 80.

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
So in short, we've moved to cash positive position as we speak today.

Gopal Krishnan - Analyst, Oothu National Investment
Okay.

Operator
Thank you so much, sir. 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 - Analyst
Yeah, hi, thanks for taking the question. I just want to understand, you mentioned that, you know, oil and gas you're trying to diversify away. So is it also to do with partly where where we see that that cycle seems to have cleared out in terms of oil and gas kickbacks and is there some softness in demand flows through in our order book?

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Yeah, so Nesar, the plan for diversification is not from that context. Our conventional oil and gas, fertilizer, and thermal power business has very strong traction. What we believe and what we've been articulating in our strategy is that about 1,000 crores is something that we will continue to be doing from our conventional business because we see that good traction going on at least for the next 10 years, if not more. But we need to prepare for the future, and that's where we are saying that we wish to have a sizable extent of our turnover coming from the newest sectors. When we say newest sectors, it is from the nuclear, where we've already made a beginning last year, so we want to move a little stronger on nuclear being the comparatively a cleaner source. We want to move greater into the hydrogen business, we want to move greater into the green fertilizer business.

We are also looking at some sort of AI data center cooling systems where we can support. So these diversifications are for our long-term future, maybe three years on. But for short term, it's pure oil and gas, petrochemical, fertilizers where we see extremely good traction. And with what's happening in the world today, as I've put it in our opening remarks, we see at least until 2030 a whole host of projects in India, especially in Middle East and some parts of Africa, which is going to drive this demand at least until 2030. So the whole diversification plan is part of our strategy to prepare ourselves for the future.

Nesar - Analyst
Right, okay. But, sorry on that, just in terms of the softness that we are seeing in demand, if if how how do we see for this year which which we are because again we are seeing that it is going to be towards the second half. And the last conference call even in May, we didn't really get that, you know, sense that Q1 is going to be this bad where you were already 2/3 into the quarter. So if you can give a bit more frank and sense of the year, especially, you know, Q2 and H2, that will be very helpful.

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Yeah, so as we speak today, as I said, we have an order book position of 985 crores. What it means is that we have the complete order book that we have planned for this financial year. And how we have selected which projects should be executed in this year, of course, it purely depends on the deliverables that we have to customers based on our contractual delivery dates. So we have a complete overview of which projects we are going to execute in this financial year. And based on that, because we had a delayed start into quarter 1 for the reasons that I mentioned in my opening remarks, we couldn't complete the milestones for revenue recognition in the quarter 1, which

eventually as we progress will happen in quarter 2, quarter 3, and quarter 4.

Of course, it will be a gradual push. Quarter 3 and quarter 4 is going to be the highest in terms of revenue generation and thereby EBITDA margins from that quarter. So overall, considering the EBITDA margins for this quarter 1 at good levels, when we say we are going to achieve around 15% of EBITDA, so obviously quarter 2, quarter 3, and quarter 4 is going to be higher than that for us to come to an average. So these are all worked-out numbers which will gradually improve from quarter 2, highest being quarter 3 and quarter 4.

Nesar - Analyst
Right, and just one follow-up, you know, you mentioned that obviously you have fixed price contracts and you know you take some six to eight weeks to work out the material requirements and then new order. And so to that extent, so my question is do you not hedge in the interim like why are we like do we have to bear the cost of the fluctuations of RM? Do we not hedge?

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
So for us, what happens is every item is custom made for us. These are not commodities. Every item is specifically made for a project, to order. And as you know, in India we generally have only two mills in India that we buy from. AMNS, ArcelorMittal, and Jindal, these are the two broad mills. Of course, 10 to 15% or roughly about maximum 20% we do import. But largely our supply chain is in India for plates. And being custom made specific to order, we have to finish the design first which takes about four to six weeks. Those designs need to be approved by customer. Only when they stamp saying that this design is okay, we can go ahead.

Otherwise, we would be at our risk to purchase if the customers put some comments or do not approve the design that we submit. So we have to necessarily wait for four to six weeks, mainly on account of customer approving the design.

Operator
Thank you. I just like to, Reghu, just jump in for a second. There are several questions around softness of demand. The softness of demand happened last year for two quarters, which is why the quarter 1 this year is suffering. As of now, there is no softness in demand, in fact, it's a very robust demand, which is why there is confidence in the future. And when you have longer gestation items, sometimes the due date don't fall nicely across across four quarters and this year it so happens that most of the due dates are falling in the second half of the year, which is why the revenue recognition is the way that there is. But the entire order book for this year is actually pretty full and, you know, we are at capacity. So I just wanted to reinforce Reghu's words with that summary in slightly different language for those that might might help with such rephrasing. So that's what I just wanted to add to respond to some of those questions that came in around demand.

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Yeah, thanks, thanks, Puneet. And just to add, since we have an inquiry strong pipeline of about 1,100 crores on hand as on today, that should give confidence in terms of demand that's available in the market.

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

Mohar Surana - Analyst, Monarch Networth Capital Limited
Thank you for the opportunity. So just one question from my end. Out of your total export order book of 380 crores, can you just give a breakdown by country? How much is US, how much is Middle East and other countries?

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
So from this, about out of 380, let me just give you the precise numbers. Around 50 crores is for the United States of America, roughly about 60 crores is for Africa, which is largely for Nigeria, and the balance all is for the Middle East. Substantial of that being for Abu Dhabi National Oil Company, which is ADNOC.

Mohar Surana - Analyst, Monarch Networth Capital Limited
So is it fair to assume that if the Middle East crisis continues, say for next 3 months, then we will continue to face logistical challenges?

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Yeah, so to be frank, if there are large-size ODC equipment, then the only route to go to these facilities are through the Strait of Hormuz, which is in doubt today. But for the size of heat exchangers that we make in Odo especially, that size doesn't have a limitation because it can go through a different route and take the route to ADNOC, which has been done. We have dispatched many equipment. Only the massive ODC confinements generally cannot pass. If I have answered your questions, understood, sir. So that's helpful. Just one thing, on taking a longer route, does the higher freight cost is passed to the customer or that's something that we have to take the hit? That's passed to the customer because there's 99% of our contracts are FOB India port, so that's all done by the customer. Understood. Thank you, sir, and all the best for the future. Thank you.

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
Thank you so much.

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. Reghu P. Nair for closing comments. Thank you and over to you, sir.

Reghu Nair - Managing Director and Chief Executive Officer, The Anup Engineering Limited
So thank you all for your interesting questions, and I hope me and Puneet were able to clarify. In case if you have any further queries, please feel free to connect with us, and we would be happy to respond. I take this opportunity to thank my resilient team at Anup and to each and every stakeholder helping us deliver results in this difficult time. A big thank you to all our well-wishers for your trust and support as always. Thank you and take care.

Operator
[Operator Closing Remarks]