

Thejo Engineering Limited

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18th January, 2019

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E),
Mumbai 400051.

Dear Sir/Madam,

Sub: CRISIL SME Independent Equity Research
Ref: Our Scrip Code THEJO - EQ (SM)

This is to inform you that CRISIL has given its Detailed Report under its SME Independent equity research and the grades assigned are as follows:

SME Fundamental Grade - 5/5 and
SME Valuation Grade - 4/5

We are enclosing the report for your information and records.

Kindly acknowledge the receipt.

Yours truly,
For Thejo Engineering Limited,

M.D. Ravikanth
Secretary

CRISIL SME IER

Independent Equity Research

Enhancing investment decisions



Thejo Engineering Ltd

Detailed report

Explanation of CRISIL SME Fundamental and Valuation (CFV) matrix

The CRISIL SME CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through SME Fundamental Grade) and Analysis of Returns (SME Valuation Grade) The SME fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals). The SME valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP). This opinion is a relative assessment in relation to other SMEs in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research.

CRISIL SME Fundamental Grade	Assessment	CRISIL SME Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Thejo Engineering Ltd

January 14, 2019

International operations to gain further scale; revival in end-user industries to boost domestic revenue
SME Fundamental Grade: 5/5 (Excellent fundamentals)
SME Valuation Grade: 4/5 (CMP has upside)
Fair Value: ₹621
CMP: ₹560

Thejo Engineering Ltd's revenue increased at a 17% CAGR during fiscals 2016 to 2018, after a decline in fiscal 2016. A revival in domestic end-user industries - steel, power and iron ore mining - resulted in an 8% increase in domestic manufacturing revenue (24% of operating income) and a 7% rise in domestic services revenue (40% of operating income). On the other hand, international operations (37% of operating income) grew 44% in fiscal 2018, driven by Australian and Saudi Arabian operations. Sustained demand momentum in end-user industries and healthy growth in its overseas operations are expected to drive Thejo's future growth. Further, operating margins are expected to improve, as the overseas operations continue to gain scale amid lower rubber prices (50% of materials cost). Though intermittent volatility in cash flows is likely, given its exposure to cyclical industries, established customer relationships and the ability to execute across geographies are key positives. We maintain our SME fundamental grade of **5/5**.

Domestic operations – structural recovery in end-user industries to drive growth

A sustained pick-up in demand for commodities, such as steel, coal, cement and power, is expected to boost domestic revenue. Further, renewed focus on its O&M and safety-consultancy services are expected to augment services revenue. We forecast domestic revenue to grow at a 12% CAGR over fiscals 2018 to 2020.

Overseas operations to gain further scale

Thejo has established a strong presence in Australia and Saudi Arabia on the back of major client wins. Further, it has been able to add new clients in Brazil and Chile. With favourable trends emerging across these markets, Thejo is well placed to further scale up its operations. We expect its overseas revenue, including exports, to increase 16% over fiscals 2018 to 2020.

Higher profit in overseas operations, softer rubber prices to expand margins

Higher profit from overseas subsidiaries has boosted the company's overall profitability. The trend is likely to continue, as it adds new business in these markets. Further, a steady decline in domestic rubber prices is likely to aid margins in the near term. We forecast EBITDA margin to expand to 13.4% in fiscal 2019 and to 14.1% in fiscal 2020.

Estimates rolled forward by a year, fair value increased to ₹621

We have rolled forward our estimates by a year to fiscal 2020. Consequently, we increase our discounted cash flow (DCF)-based fair value estimate to ₹621 from ₹580. At the current market price of ₹560, our SME valuation grade is **4/5**.

KEY FORECAST

(₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
Operating income	1,783	2,200	2,553	2,911	3,302
EBITDA	201	278	343	410	471
Adj net income	58	111	159	200	237
Adj EPS (₹)	16.8	32.2	46.3	58.4	68.9
EPS growth (%)	2,626.6	92.0	43.9	26.1	18.0
Dividend yield (%)	0.6	0.6	1.7	2.2	2.6
RoCE (%)	16.1	23.1	27.1	29.3	29.7
RoE (%)	11.3	18.5	22.5	23.8	23.5
PE (x)	33.4	17.4	12.1	9.6	8.1
P/BV (x)	3.5	3.0	2.5	2.1	1.8
EV/EBITDA (x)	11.4	8.0	6.5	5.4	4.7

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

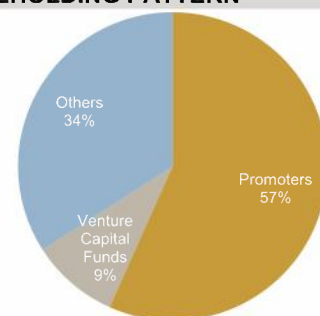
SME CFV MATRIX

SME Fundamental Grade	Excellent	Strong Upside
	5/5	5/5
	4/5	4/5
	3/5	3/5
	2/5	2/5
	1/5	1/5
	Poor	Strong Downside

KEY STOCK STATISTICS

NIFTY	10738
NSE EMERGE ticker	THEJO
Face value (₹ per share)	10
Shares outstanding (mn)	3.4
Market cap (₹ mn)/(US\$ mn)	1,921/27
Enterprise value (₹ mn)/(US\$ mn)	2,176/31
Free float (%)	43%

SHAREHOLDING PATTERN



Research

Table 1: Business environment

Parameter	Domestic	Overseas	Trading and others
Revenue contribution (FY18)	62%	36%	3%
Revenue contribution (FY20E)	60%	38%	2%
Revenue CAGR (FY16-18)	8%	44%	0.1%
Revenue CAGR (FY18-20E)	12%	16%	0.0%
Product/service description	• Product: Rubber liners, screening components, hydrocyclones, pump spares, flotation cell and agitators, rubber lined pipes and fittings and others • Services: Conveyor belt splicing, repairs, belt laying, pulley lagging and corrosion protection applications, plant operation and maintenance related service		Management indicated they will wind down the natural rubber trading business
Geographic presence	-	Australia, Saudi Arabia, Chile, Brazil	-
Market position	• Domestic industry is highly fragmented with several small and regional players • In overseas operations faces competition from both large conglomerates as well as small players • Thejo has ~70% share in the outsourced conveyor belt services in India		Competes with cooperatives
Demand drivers	• Revival in demand, particularly for industries such as steel, mining, port, power and cement	• Pick-up in mining production in Australia and Brazil	-
Key risks	• Slower than expected pick-up in O&M services as the company now shifted focus on winning KPI (Key performance Indicator) based contracts • Inability to pass on increase in raw material prices • Company has a natural hedge to the extent of raw material imports which are offset by overseas revenues. However, beyond this the company does not hedge its forex exposure		

Source: Company, CRISIL Research

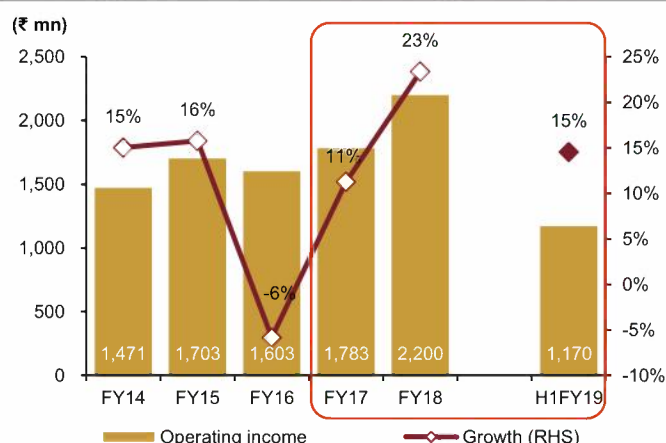
Grading rationale

Revenue boosted by both domestic and overseas operations

Thejo has posted strong growth because of healthy performance by its domestic and overseas operations. The company's revenue is largely dominated by domestic operations, which contribute over 60% of revenue. After two years of a decline, the domestic operations (excluding trading) reported a strong 18% growth in fiscal 2018 and an 8% increase in the first half of fiscal 2019, because of demand pick-up in its key end-user industry.

Further, Thejo's overseas operations (including export) reported a robust revenue growth of 44% CAGR between fiscals 2016 and fiscal 2018, largely driven by demand pick-up in Australia and Saudi Arabia. However, the trading business revenue declined 17% in fiscal 2018.

Revenue grew robust 17% CAGR during FY16-18...



Source: Company, CRISIL Research

... largely driven by domestic and overseas operation

	FY14	FY15	FY16	FY17	FY18	H1FY19
Growth (y-o-y)						
Domestic revenue*	10%	7%	-8%	-2%	18%	8%
Overseas revenue	11%	26%	32%	54%	35%	16%
Revenue share						
Domestic revenue	77%	71%	73%	64%	62%	62%
Overseas revenue	15%	16%	23%	32%	36%	34%

*Excluding trading income

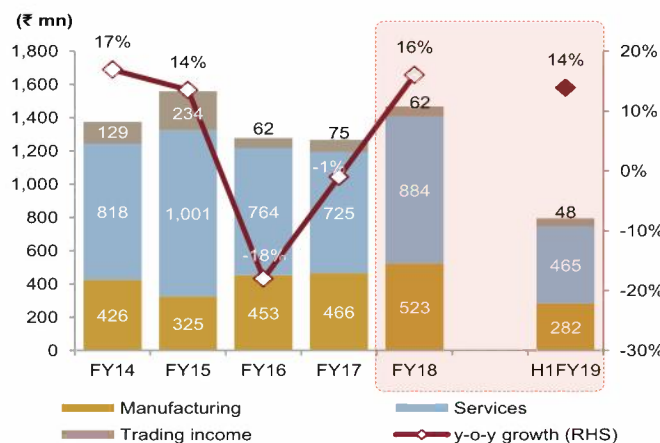
Source: Company, CRISIL Research

Industry-wide revival aided domestic revenue growth in fiscal 2018

After two years of a decline during fiscals 2016 and 2017, Thejo's domestic revenue (including trading income) clocked a healthy growth of 16% in fiscal 2018 and 14% in the first half of fiscal 2019, reflecting a revival in the Indian material-handling equipment (MHE) industry. The services segment's revenue (~60% of domestic revenue) increased 22% and manufacturing revenue (36% of domestic revenue) rose 12% in fiscal 2018, primarily because of a demand pick-up in end-user industries, such as steel, iron ore mining and power (which collectively constitute ~60% of revenue). The implementation of minimum import prices on steel products and an improvement in the commodities market has supported demand pick-up for Thejo.

Research

Domestic revenue logged robust 16% in FY18...



Source: Company, CRISIL Research

... led by both manufacturing and service segments

	FY14	FY15	FY16	FY17	FY18	H1FY19
Growth (y-o-y)						
Manufacturing	1%	-24%	39%	3%	12%	8%
Services	16%	22%	-24%	-5%	22%	9%
Revenue share						
Manufacturing	31%	21%	35%	37%	36%	36%
Services	60%	64%	60%	57%	60%	59%

Source: Company, CRISIL Research

The revival in the end-user industry has aided the MHE industry, as most players have reported strong growth. Thejo has reported a strong growth of 16% compared with its peers' average of 4%, as it benefitted from a diverse set of clients.

Thejo outperformed its peers in FY18

Revenue growth	FY14	FY15	FY16	FY17	FY18
Thejo's domestic revenues	17%	14%	-18%	-1%	16%
Tega Industries	5%	-10%	-13%	-7%	11%
International Conveyors	14%	-27%	-13%	-29%	-6%
Somi Conveyor Beltings	-17%	14%	-23%	7%	4%
Average	5%	-10%	-13%	-7%	4%

Source: Company, CRISIL Research

Domestic core-industry tailwinds to bolster revenue growth

Thejo's revenue largely depends on new capex and replacement demand in its end-user industries. The rise in steel production, a revival in power demand, the commissioning of coal-based capacities, and a pick-up in industrial activity should boost demand for Thejo's products and services in the domestic market.

Further, Thejo likely to benefit from the new products and services launched during fiscal 2017 and 2018. Pressure bag based vulcanizing machine and engineered chutes are added in products. KPI based O&M contracts, safety services & training are the new services launched in last two years.

We forecast domestic revenue to grow at a two-year CAGR of 12% to ₹1,751 million between fiscals 2018 and 2020.

- **Iron and steel (~40% of domestic revenue):** Domestic steel demand should grow at a healthy pace of 6-7% CAGR over fiscals 2019 to 2023, because of the acceleration in rural housing constructions, robust growth in the infrastructure segment and other

government-led projects; alloy steel and non-alloy steel witnessed growth of 22.3% and 6.3% during the first half of fiscal 2019.

Further, during the first half of fiscal 2019, domestic prices of flat steel and long steel surged nearly 20% and 15%, driven by rupee depreciation and a 37% rise in iron ore prices. We expect prices to remain firm because of domestic demand and higher coking coal prices.

- **Power (~15% of domestic revenue):** Power demand should rise at a 6.5-6.8% CAGR over fiscals 2019 to 2023, driven by robust residential demand and moderate industrial demand. The residential demand is likely to pick up on the back of high latent demand and rapid urbanisation, coupled with the impetus from the government for rural electrification (Saubhagya scheme).

Implementation of the UDAY (Ujwal Discom Assurance Yojana) is likely to improve the liquidity of discoms, enabling them to invest in strengthening of distribution networks to reduce AT&C (Aggregate Technical and Commercial) loss and, in turn, narrowing the ACS-ARR gap to ~₹0.11 per kWh by fiscal 2021. This is expected to ease the financial stress on discoms and improve their power off-take ability, thereby increasing power demand.

Further, the expected improvement in T&D (**Transmission and Distribution**) infrastructure, coupled with agricultural feeder separation and extensive rural electrification under the DDUGJY (Deendayal Upadhyaya Gram Jyoti Yojana) will drive power demand upward fiscals 2019 to 2023.

- **Coal (~10% of domestic revenue):** Domestic coal supply should increase at ~7% CAGR between fiscals 2019 to 2023, because of a rise in production by Coal India Ltd and the commencement of operations of captive coal mines auctioned to various end-users.

A revival in power demand, commissioning of coal-based capacity, and a pick-up in industrial activity are likely to boost domestic non-coking coal demand by ~5.7% over fiscals 2019 to 2023. Demand for stoke coking coal is expected to increase ~6% over the same period, led by growth in steel production.

O&M segment yet to fully ramp up

The management has taken a conscious view to go slow on O&M (operations and maintenance) business, as most contracts up for bidding are largely focussed on manpower supply and resultantly pricing has turned out to be the only differentiator for a successful bid. Given the limited availability of skilled manpower and high wages, company has refrained from bidding for such price sensitive O&M contracts, which are likely to erode margins.

To overcome these challenge, company has shifted focus away from price sensitive O&M contracts to those based on achieving KPI (key performance indicators)-based O&M contracts, where clients are willing to pay a premium for achieving pre-determined operating-performance targets. The company has also strengthened its O&M team with technical experts to target this business. We expect this segment to gradually ramp up over the next few years.

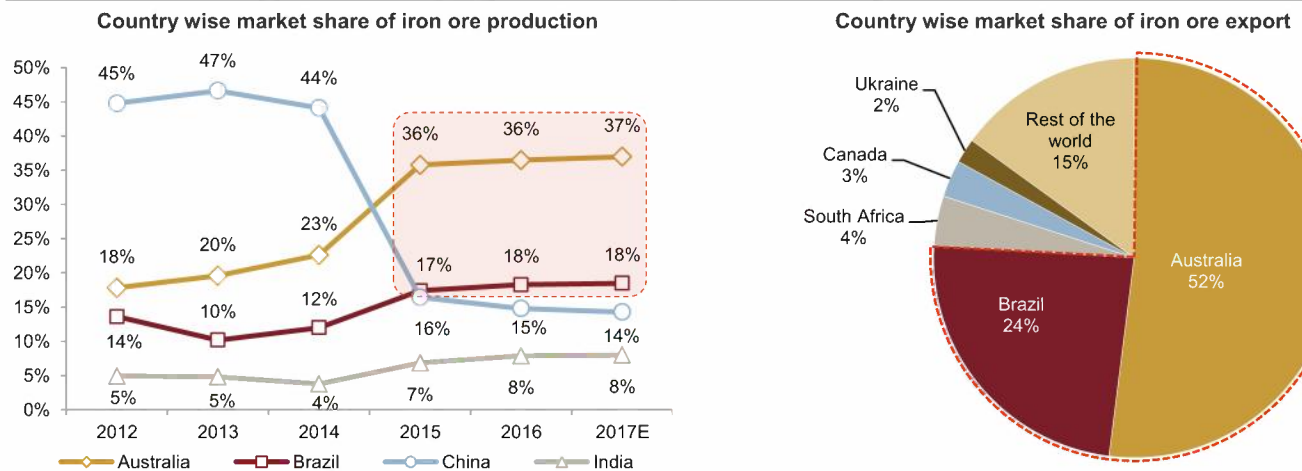
Thejo to benefit from sustained demand in its key overseas markets

The company's key overseas markets, which include Australia and Brazil, continue to dominate the global iron ore trade, because of its lower cost of production. Australia and Brazil account for ~55% of overall iron ore production. Iron ore constitutes over 70% of total mining production in Australia. The Department of Industry, Australia, forecasts production growth to moderate to ~2% CAGR over 2019-2020.

Further, Australia and Brazil together account for ~76 of total iron ore exports. Major steel manufacturers, such as China and Japan, highly rely on Australia for iron ore imports, and this is expected to support demand.

As an established service provider to the iron ore industry across these geographies and extensive client base, Thejo is expected to further penetrate these markets given the growth prospects. Further, the company has now established a foothold in the Chilean market through recent client wins. Also, it continues to benefit from focus on non-oil mineral exploration in Saudi Arabia. We expect Thejo's overseas revenue, including product exports, to grow at a 16% CAGR over fiscals 2018 and 2021.

Australia and Brazil together form majority of the iron ore production and exports



Source: Department of industry, innovation and science – Australian government, CRISIL Research

Demonstrated ability to add clients across geographies

- The company's Australian operation continues to dominate the international business. It reported a robust revenue growth of 75% CAGR between fiscals 2013 and 2018. The recovery of the mining industry in Western Australia has improved its performance and profitability; its revenue increased 39% in fiscal 2016-2018. The Department of Industry, Australia, forecasts that the recovery is likely to continue over 2019-2020. The top clients are AngloGold Ashanti, Bridgestone, Crushing Services International and WA Belting Solutions.
- After declining 15% in fiscal 2016, revenue from the Saudi Arabian operations reported a strong growth of 43% CAGR over fiscals 2016-2018. Thejo Hatcon (the Saudi Arabia subsidiary) has benefitted from the country's increased focus on non-oil

mineral exploration. The major clients are Maa'den Gold, Maa'den Phosphate, Saudi Aramco, Saline Water Conversion Corporation and Saudi Cement Company.

- Following a two-year recession and trucker strike, the Brazilian economy has bounced back on the back of successful reforms. The government has successfully negotiated a trucker's nation-wide strike through minimum freight price policy. The gradual and continuous recovery of the Brazilian economy has enabled Thejo Brasil to report marginal profits. Its key clients include Imerys Limeira and Usiminas, Companhia Siderurgica do Pecem.
- Thejo's offerings include bulk-material handling, mineral processing and corrosion protection to Chile's core sectors, such as mining, steel and iron and other industries. The effect of recession and labour strike in the copper-mining sector had impacted its revenue from the Chile subsidiary in recent years. After the successful contract negotiation, the copper production is expected to pick up in fiscal 2019. Further, the country has avoided a recession. As a result, management expects the Chile subsidiary to post higher revenue in fiscal 2019 due to recent client wins. Its large clients include Minera Escondida and Compania Minera del Pacifico.

Thejo's international operations reported robust growth in the past two fiscal years

(₹ mn)	FY13	FY14	FY15	FY16	FY17	FY18	CAGR (FY16-18)	CAGR (FY13-18)
Australia	21	81	143	177	249	341	39%	75%
Saudi Arabia	31	38	49	42	97	139	83%	35%
Brazil	NA	NA	NA	2	5	11	133%	NM
Chile	NA	NA	NA	4	23	47	226%	NM
Total exports	159	115	103	166	227	271	28%	11%
Total	210	234	296	391	601	810	44%	96%

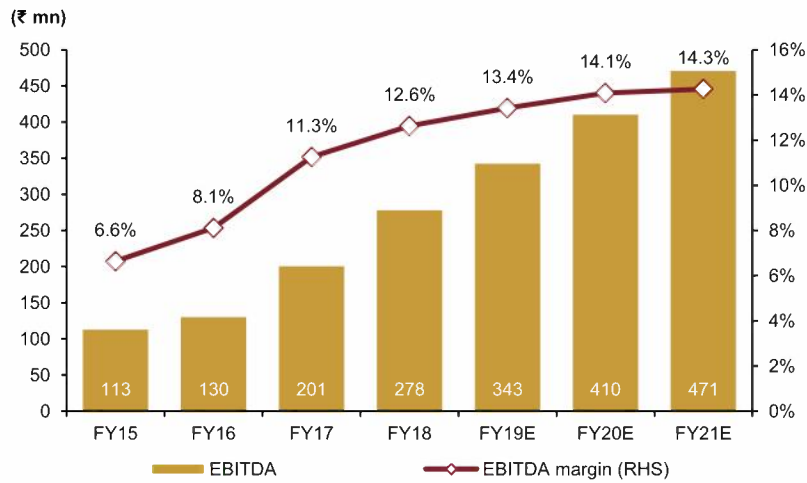
NA: Not available

Source: Company, CRISIL Research

Margins to expand as overseas operations continue to scale up along with a moderation in domestic rubber prices

Thejo's operating margin is expected to expand 160 bps over fiscals 2018 and 2021, as loss-making subsidiaries turn around, coupled with a fall in domestic rubber prices. Three out of four subsidiaries of Thejo have reported a net profit in fiscal 2018. The Brazil subsidiary turned profitable for the first time in fiscal 2018 and the Chile subsidiary is likely to break even by next year. The Australian and Saudi Arabian subsidiaries have reported sustained growth over the past couple of years.

EBITDA margin to expand, driven by a rebound in overseas operations



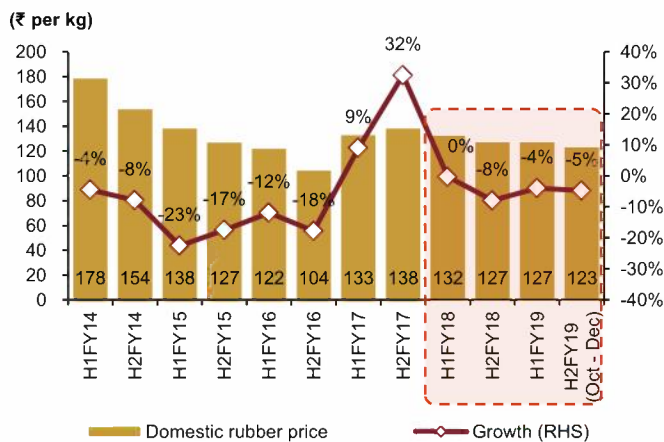
Source: Company, CRISIL Research

Decline in domestic NR prices led to an expansion in the contribution margin

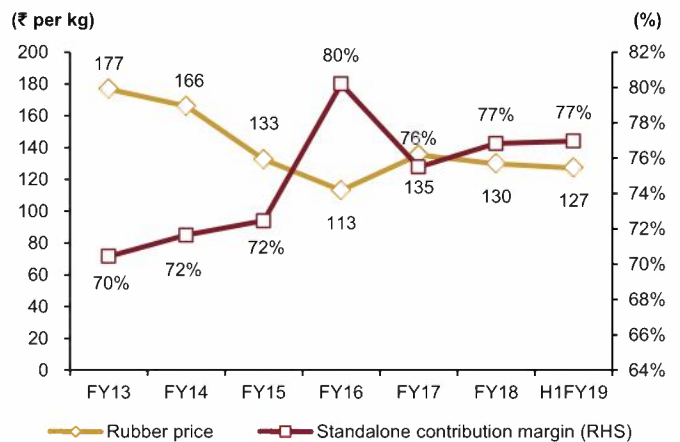
Domestic NR prices typically follow the international prices with a lag. Thus, domestic NR prices have declined ~4% over the past two years. Rubber production in India fell in the second half of the fiscal 2018 on the back of low NR prices. Domestic prices have remained above international NR prices, leading to a rise in imports and a fall in domestic NR demand. The trend is likely to continue in the near term. Hence, we expect domestic NR prices to decline marginally in fiscal 2019.

Standalone contribution margin is highly correlated with domestic NR prices. The contribution margin expanded 133 bps with the ₹5/per kg decline in NR prices in fiscal 2018. Hence, Thejo's contribution margin is likely to expand in fiscal 2019.

Decline in domestic rubber prices ...



... to aid expansion in contribution margin

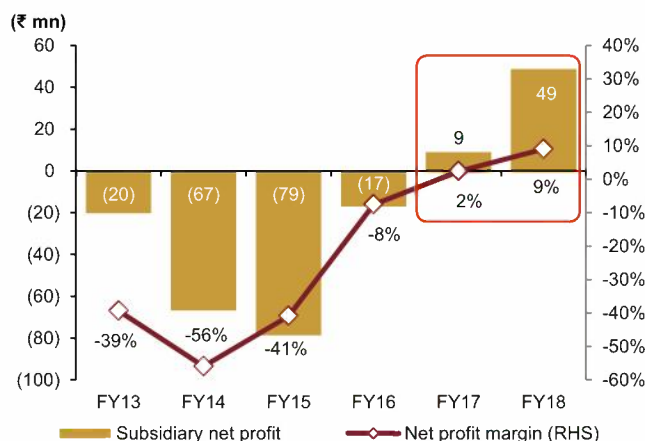


Source: Rubber Board (Ministry of Commerce and Industry), Company, CRISIL Research

Turnaround in overseas operations

The subsidiaries' combined net profit margin increased to 9% in fiscal 2018 from 2% in fiscal 2017, because of a substantial expansion in net profit margin driven by Saudi Arabia (18%), Australia (9%) and Brazil (6%) subsidiaries. The steady recovery in the Brazilian economy has aided the operations there to report a net profit for the first time.

Subsidiary together turned profitable...



Source: Company, CRISIL Research

... largely driven by Australia and Saudi Arabia units

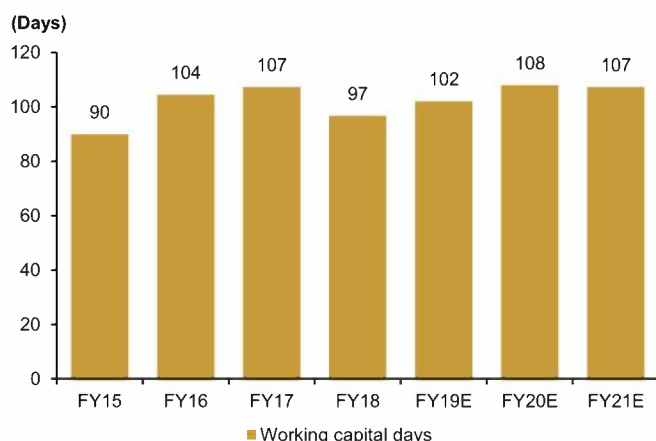
	FY13	FY14	FY15	FY16	FY17	FY18
Net profit (₹ mn)						
Australia	(21)	(63)	(65)	24	17	32
Saudi Arabia	0	(3)	(8)	(15)	8	25
Brazil			(3)	(5)	(0)	1
Chile			(3)	(21)	(15)	(9)
Net profit margin						
Australia	-100%	-78%	-45%	14%	7%	9%
Saudi Arabia	1%	-9%	-15%	-36%	8%	18%
Brazil	NM	NM	NM	-195%	-8%	6%
Chile	NM	NM	NM	-475%	-67%	-18%

Working-capital cycle to remain longer

The company's working capital declined by 10 days to 97 days in fiscal 2018, largely attributed to the high debtor days (107 days), but also due to lower inventory, advance tax and higher creditor days. Inventory declined to 55 days in fiscal 2018 from 61 days in fiscal 2017, and creditor days improved by 4 days to 85 days.

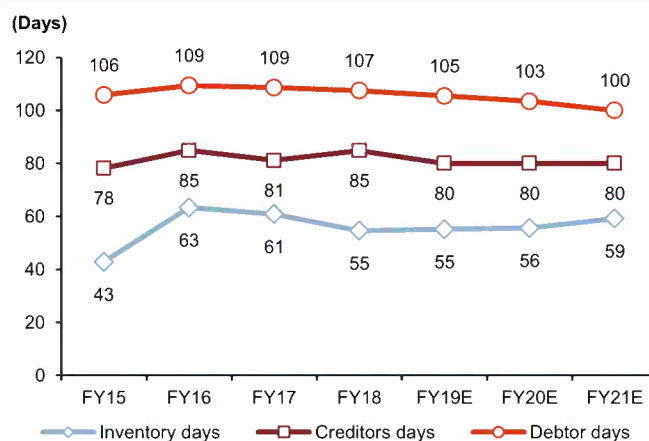
The industry normally sees an increase in debtor days during an industry downturn; hence, the company's debtor days have increased to 109 days in fiscal 2016 and 2017, but improved marginally in fiscal 2018. The working capital is likely to remain above 100 days during fiscals 2019 to 2021.

Higher working capital led by ...



Source: Company, CRISIL Research

... higher debtor days

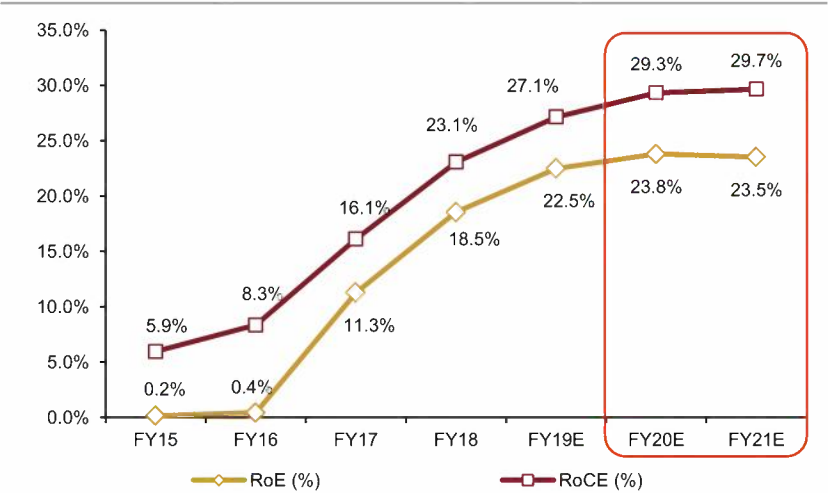


Source: Company, CRISIL Research

Further expansion in return ratios likely

Thejo's overseas subsidiaries, except that in Chile, have reported net profit in fiscal 2018. The profitability is likely to strengthen, with the expected recovery in both domestic and overseas operations. Further, declining raw material costs along with the decline in NR prices to enhance profitability. Thejo's return ratios are likely to trend upward in near term. Hence, both the return on equity and return on capital employed are likely to rise to 24% and 30%, respectively, in fiscal 2021.

Return ratios to improve with the rise in profit margins



Source: Company, CRISIL Research

Key risks

Slower-than-expected pick-up in O&M services

The company is focused on KPI-based O&M contracts, which are crucial for its domestic business. However, it could not win any new contract in fiscal 2018, because of pricing pressure. Though company strengthened its O&M team, as getting new KPI-based contracts will be a challenge amid high competition in this segment.

Prolonged slowdown in end-user industries

The company's clients are from the mining, steel, power and port industries. As a result, its revenue is linked to cyclicalities in the end-user industries. A prolonged slowdown in end-user industries is likely to hurt its revenue growth.

Inability to pass on an increase in raw-material prices

NR prices (~50% of total material costs) have been highly volatile in the past two quarters. The company's limited ability to pass on input prices may hurt profitability.

Fluctuations in currency

While the company has a natural hedge as it imports raw material and earns revenue from overseas operations, it is limited to the extent of its imports. Thejo currently does not hedge its foreign exchange exposure completely; hence, it is susceptible to currency volatility risk. A higher rupee will impact its international revenue negatively.

Management overview

Professional and experienced management

The company's management team is led by V A George, who has been associated with the company since 2007. George is an engineering and management graduate with over 35 years of experience at senior management positions. He is supported by Manoj Joseph as director (marketing) and Rajesh John as director (sales), who have been associated with the company over 25 years and 15 years, respectively. The long-standing association of top management with the company fosters continuity and knowledge depth of management. Based on our interactions with the company, we believe it has a professional and experienced second line of management.

Management successfully managed the company's foray into new segments and geographies

Thejo's management has been able to diversify its product and service offerings on the back of a strong focus on R&D and innovation. This has helped the company maintain its competitive edge in the material-handling industry. Further, management has been successful in ramping up global revenue, with Australian and Saudi Arabian operations contributing majorly to growth. However, its ability to ramp up operations in Brazil and Chile is a monitorable, given the slowdown in mining in these countries.

Board composition – complying with the listing norms

Thejo's board has 11 members, with six independent directors. The board brings to the table sector expertise relevant to the business and diversified technical, business and administrative experience.

Independent directors of repute

The well-rounded board includes independent directors from various fields, such as corporate affairs, finance, public service, entrepreneurship and technology. Independent directors, who have vast experience in their respective domains, are N Ganga Ram, V K Srivastava, A Satyaseelan, M P Vijay Kumar, C N Ramchand and Sujatha Jayarajan.

Satisfactory disclosure

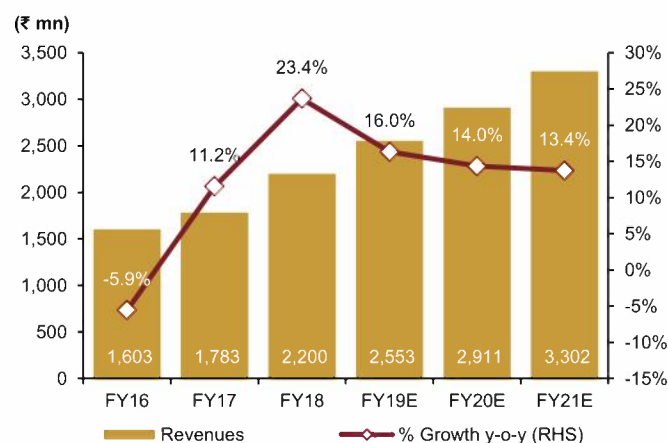
In our opinion, the company's disclosure level is satisfactory based on publicly available information, such as half-yearly results, annual reports, content on website and other public documents.

Financial outlook

Revenue to grow at a strong 14.5% CAGR over fiscals 2018 to 2021

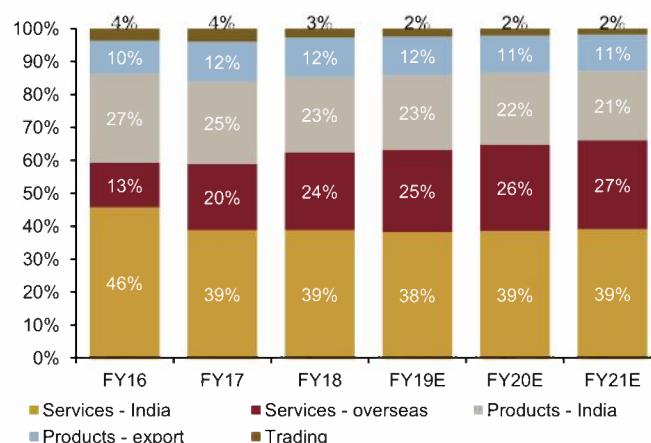
CRISIL Research expects Thejo's consolidated revenue to increase at a three-year CAGR of 14.5% to ₹3.3 billion in fiscal 2021. Domestic revenue to grow at a two-year CAGR of 12% to ₹1,751 million between fiscals 2018 and 2020 aided by a revival in demand from end-user industries. Overseas revenue, including product exports, is expected to grow at a 16% CAGR over this period, largely driven by the Australian and Saudi Arabian subsidiaries. As the company is not keen on trading operations, the share of trading segment in revenue should decline to 2% by fiscal 2018.

Revenue growth to remain strong...



Source: Company, CRISIL Research

... led by domestic and overseas services

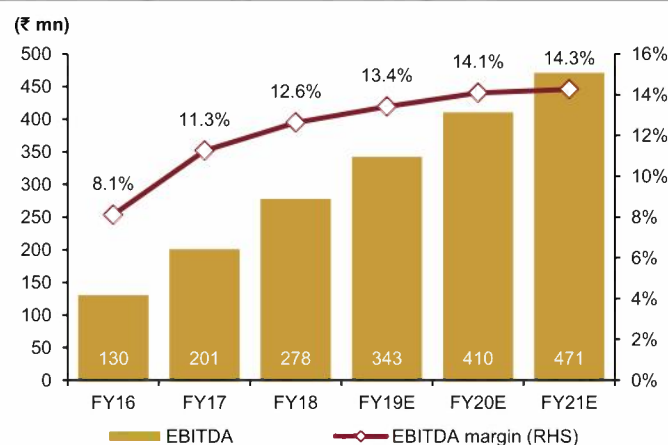


Source: Company, CRISIL Research

Margins expand significantly

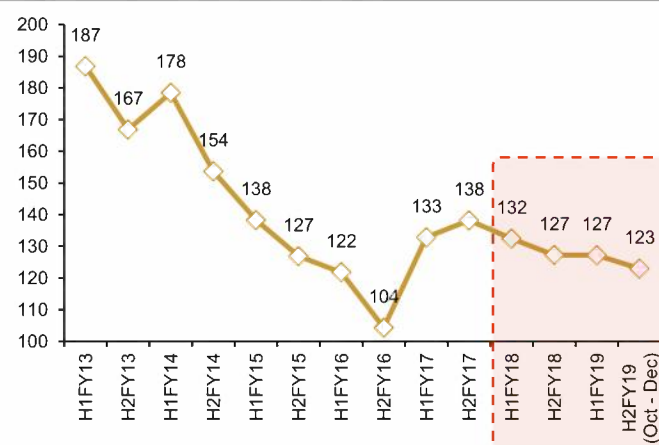
We expect the EBITDA margin to expand 163 bps to 14.9% between fiscals 2018 and 2021, because of a pick-up in the subsidiaries' revenue, higher utilisation of plants and personnel, and lower NR prices. Also, the company's efforts to increase the share of KPI-based O&M contracts should aid margin expansion.

EBITDA margin to expand to 14.3% by FY21



Source: Company, CRISIL Research

NR prices to remain low in FY19

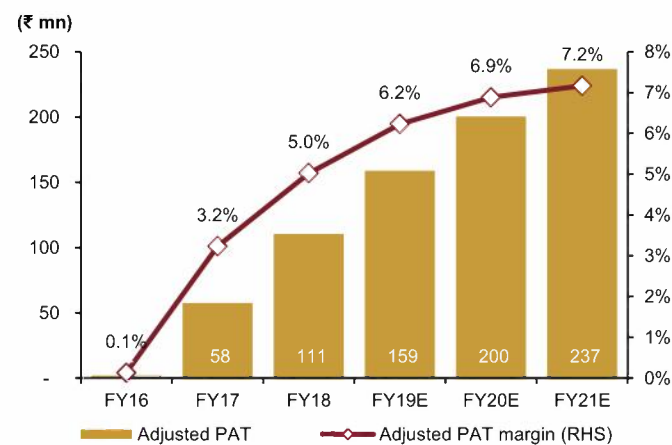


Source: Industry, CRISIL Research

Return ratios to improve steadily, driven by strong profit margin

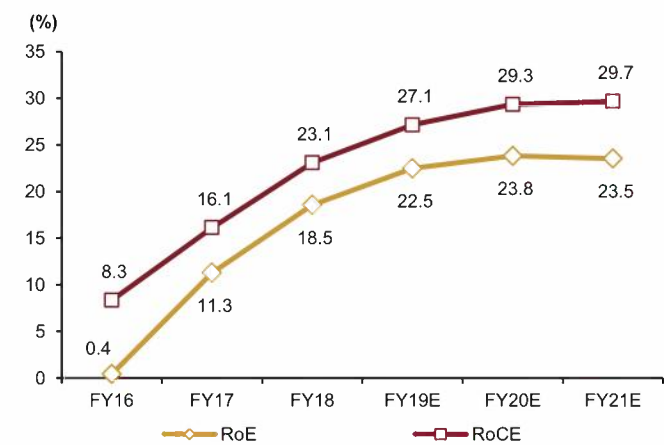
We forecast adjusted PAT to increase to ₹237 mn in fiscal 2021 from ₹111 mn in fiscal 2018, because of an increase in revenue and EBITDA. We expect return ratios to improve, with ROCE rising to 29.7% in fiscal 2021 from 23.1% in fiscal 2016 and ROE increasing to 23.5% in fiscal 2021 from 18.5% in fiscal 2018.

PAT margin to expand



Source: Company, CRISIL Research

ROE expected to improve



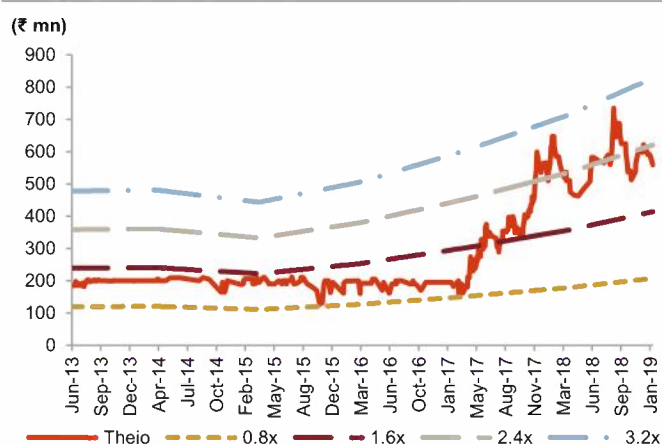
Source: Company, CRISIL Research

Valuation

Grade: 4/5

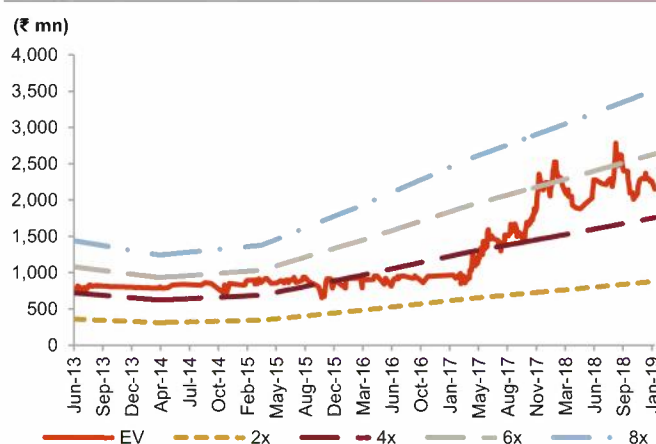
We have rolled forward our estimates by one year to fiscal 2020. We have lowered our fiscal 2019 revenue estimates. However, we have increased our long-term margin estimates, factoring in an expected turnaround in Thejo's overseas operations. Subsequently, we have raised the DCF-based fair value estimate to ₹621 per share from ₹580 per share. Our new fair value estimate implies a P/B of 2.8x fiscal 2019 and 2.3x fiscal 2020 book value. At the current market price of ₹560, our SME valuation grade is **4/5**.

One-year forward P/B band



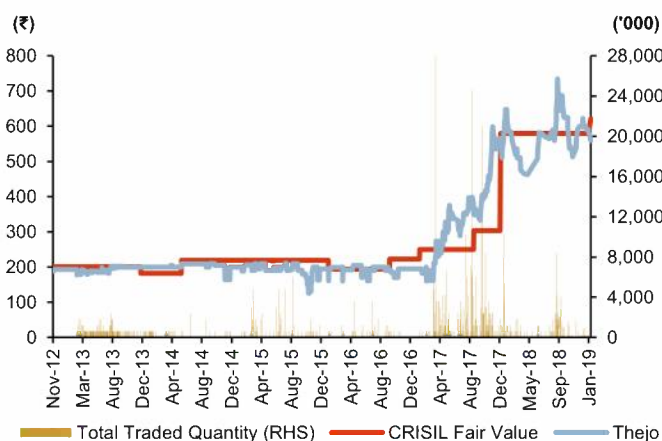
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



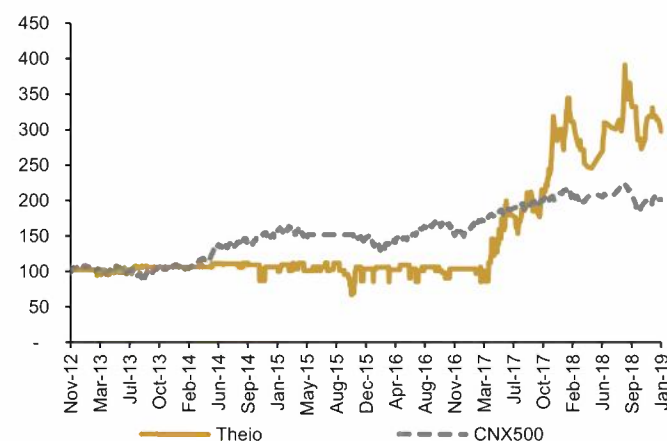
Source: NSE, CRISIL Research

Fair value since initiation



Source: NSE, CRISIL Research

Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

CRISIL SME IER reports released on Thejo Engineering Ltd

Date	Nature of report	SME Fundamental grade	Fair value	SME Valuation grade	CMP (on the date of report)
9-Oct-12	Initiating Coverage	5/5	₹201	3/5	₹187
9-Nov-12	H1FY13 Result Update	5/5	₹201	3/5	₹198
12-Jun-13	H2FY13 Result Update	5/5	₹201	3/5	₹185
27-Nov-13	H1FY14 Result Update	5/5	₹182	3/5	₹200
09-May-14	Detailed report	5/5	₹219	3/5	₹201
27-Jun-14	H2FY14 Result Update	5/5	₹219	3/5	₹209
08-Dec-14	Detailed report	5/5	₹219	3/5	₹200
13-Jul-15	H2FY15 Result update	5/5	₹219	3/5	₹200
05-Jan-16	H1FY16 Result update	5/5	₹194	3/5	₹200
27-Sep-16	Detailed report	5/5	₹223	4/5	₹190
11-Jan-17	H1FY17 Result update	5/5	₹250	5/5	₹195
14-Sep-17	H2FY17 Result update	5/5	₹304	2/5	₹348
02-Jan-18	H1FY18 Result update	5/5	₹580	3/5	₹565
19-Oct-18	H2FY18 Result update	5/5	₹580	3/5	₹537
14-Jan-19	Detailed report	5/5	₹621	4/5	₹560

Table 7: Comparison with other players in the material handling equipment industry

Company	M cap (₹ mn)	P/E (x)			P/B (x)			RoE (%)			EV/EBITDA (x)		
		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Thejo Engineering*	1,921	17.4	12.1	9.6	3.0	2.5	2.1	18.5	22.5	23.8	8.0	6.5	5.4
International conveyors Ltd	22	NA	NA	NA	1.1	NA	NA	NA	NA	NA	NA	NA	NA
Somi conveyor beltings Ltd	5	59.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
MHE (median)		59.0	NM	NM	1.1	NM	NM	NM	NM	NM	NM	NM	NM
MRF	4,200	27.2	22.5	18.4	3.2	2.7	2.3	12.3	12.3	13.1	12.7	10.2	8.8
Apollo Tyres	1,965	20.6	14.3	11.0	1.6	1.3	1.2	8.5	9.1	11.1	11.2	7.5	6.1
Ceat	784	25.6	16.9	14.2	2.3	1.9	1.7	9.5	11.5	12.3	10.8	8.2	6.5
JK Tyre & Industries	355	56.0	7.0	5.1	1.9	1.1	0.9	3.4	16.3	19.6	12.9	6.6	5.7
Tyre manufacturers (median)		26.4	15.6	12.6	2.1	1.6	1.4	9.0	11.9	12.7	12.0	7.8	6.3
Sintex Industries	103	7.2	2.5	1.7	0.2	0.2	0.1	3.4	6.1	8.5	22.1	11.7	8.5
Phillips Carbon Black	509	16.4	NA	NA	2.7	NA	NA	18.3	NA	NA	11.7	NA	NA

*CRISIL Research estimates; NA – Not available

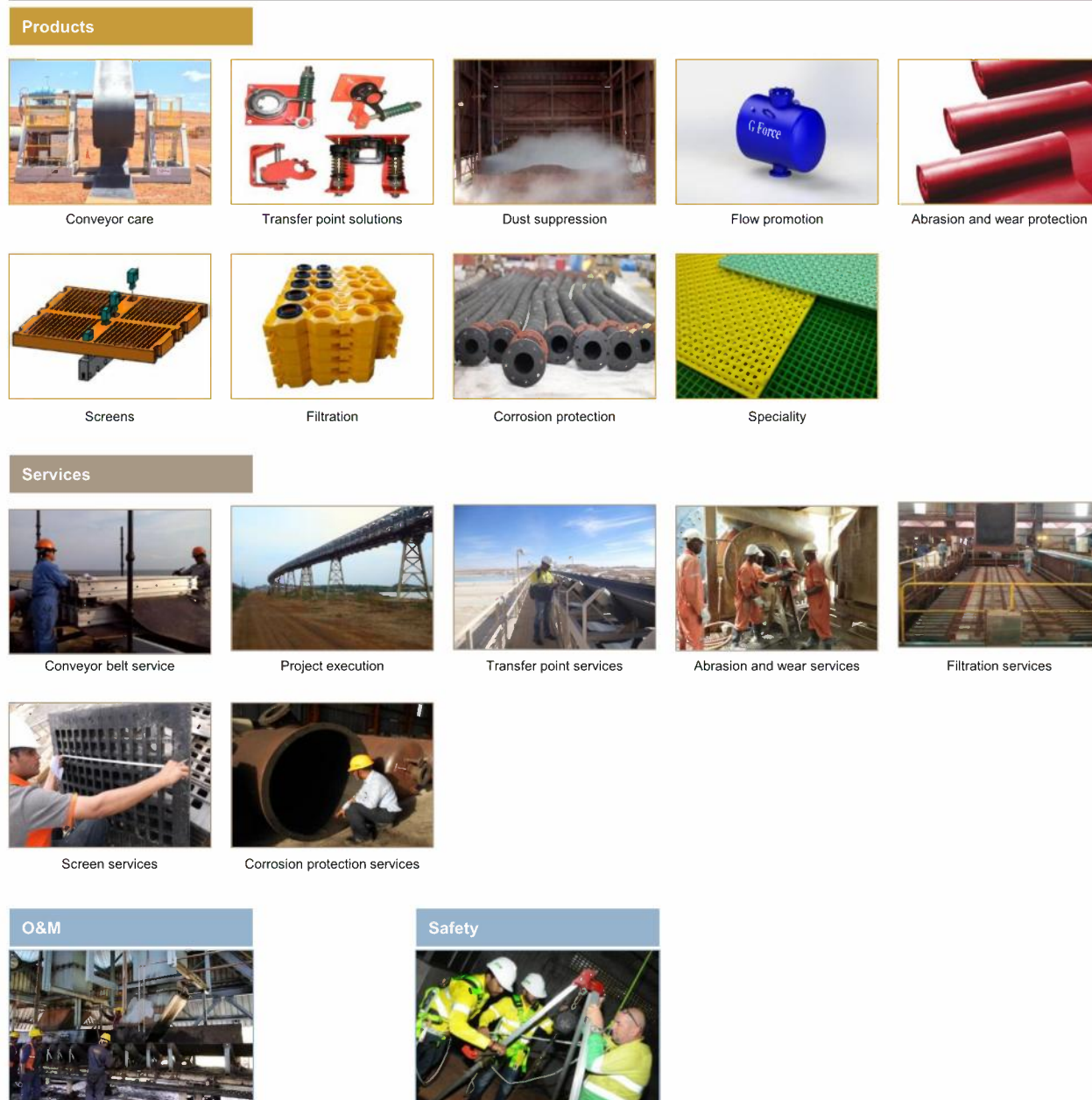
Source: Industry estimates, CRISIL Research

Company overview

Incorporated in 1986, Chennai-based Thejo is promoted by Mr K J Joseph and Mr Thomas John. It manufactures products for bulk-material handling, mineral processing and corrosion protection to mining, power, steel, coal, cement, pharmaceutical and other industries. It also provides industrial conveyor services, such as belt splicing, pulley lagging, belt laying, conveyor installation and repair services.

Thejo's subsidiaries are in Australia (Thejo Australia Pty Ltd), Saudi Arabia (Thejo Hatcon Industrial Services Company), Brazil (Thejo Brasil Comercio E Servicos Ltda) and Chile (Thejo Engineering LatinoAmerica SpA).

Fig 15: Thejo's products and services



Source: Company, CRISIL Research

Annexure: Financials (Consolidated)

Income statement						Balance Sheet					
(₹ mn)	FY17	FY18	FY19E	FY20E	FY21E	(₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
Operating income	1,783	2,200	2,553	2,911	3,302	Liabilities					
EBITDA	201	278	343	410	471	Equity share capital	34	34	34	34	34
EBITDA margin	11.3%	12.6%	13.4%	14.1%	14.3%	Reserves	510	613	732	883	883
Depreciation	53	54	60	65	74	Net worth	544	647	767	917	917
EBIT	147	224	283	345	397	Minorities	25	45	45	45	45
Interest	57	56	50	50	50	Convertible debt					
Operating PBT	90	168	233	295	347	Other debt	413	334	334	334	334
Other income	3	3	5	4	6	Total debt	413	334	334	334	334
Exceptional inc/(exp)	-	-	-	-	-	Deferred tax liability (net)	(2)	(4)	(4)	(4)	(4)
PBT	93	171	237	299	353	Total liabilities	980	1,023	1,142	1,293	1,293
Tax provision	31	40	78	99	117	Assets					
Minority interest	4	20	-	-	-	Net fixed assets	291	319	324	324	324
PAT (Reported)	58	111	159	200	237	Capital WIP	11	13	13	13	13
Less: Exceptionals	-	-	-	-	-	Total fixed assets	302	332	337	337	337
Adjusted PAT	58	111	159	200	237	Investments	25	22	22	22	22
Ratios						Current assets					
	FY17	FY18	FY19E	FY20E	FY21E	Inventory	235	256	297	338	338
Growth						Sundry debtors	588	653	735	822	822
Operating income (%)	11.2	23.4	16.0	14.0	13.4	Loans and advances	302	161	204	291	291
EBITDA (%)	54.3	38.5	23.3	19.7	14.8	Cash & bank balance	69	79	70	73	73
Adj PAT (%)	2,627	92.0	43.9	26.1	18.0	Marketable securities	-	-	-	-	-
Adj EPS (%)	2,627	92.0	43.9	26.1	18.0	Total current assets	1,194	1,148	1,305	1,525	1,525
Profitability						Total current liabilities	544	482	525	594	594
EBITDA margin (%)	11.3	12.6	13.4	14.1	14.3	Net current assets	650	667	781	931	931
Adj PAT Margin (%)	3.2	5.0	6.2	6.9	7.2	Intangibles/Misc. expenditure	3	3	3	3	3
RoE (%)	11.3	18.5	22.5	23.8	23.5	Total assets	980	1,023	1,142	1,293	1,293
RoCE (%)	16.1	23.1	27.1	29.3	29.7	Cash flow					
RoIC (%)	14.7	21.8	22.6	23.5	23.4		FY17	FY18	FY19E	FY20E	FY21E
Valuations						Pre-tax profit	93	171	237	299	299
Price-earnings (x)	33.4	17.4	12.1	9.6	8.1	Total tax paid	(28)	(42)	(78)	(99)	(99)
Price-book (x)	3.5	3.0	2.5	2.1	1.8	Depreciation	53	54	60	65	65
EV/EBITDA (x)	11.4	8.0	6.5	5.4	4.7	Working capital changes	(68)	(6)	(123)	(147)	(147)
EV/Sales (x)	1.3	1.0	0.9	0.8	0.7	Net cash from operations	50	177	96	118	118
Dividend payout ratio (%)	20.9	10.9	21.0	21.0	21.0	Cash from investments					
Dividend yield (%)	0.6	0.6	1.7	2.2	2.6	Capital expenditure	(51)	(84)	(65)	(65)	(65)
B/S ratios						Investments and others	(4)	3	-	-	-
Inventory days	61	55	55	56	59	Net cash from investments	(54)	(80)	(65)	(65)	(65)
Creditors days	81	85	80	80	80	Cash from financing					
Debtor days	109	107	105	103	100	Equity raised/(repaid)	-	-	-	-	-
Working capital days	107	97	102	108	107	Debt raised/(repaid)	19	(78)	-	-	-
Gross asset turnover (x)	2.9	3.2	3.4	3.5	3.6	Dividend (incl. tax)	(14)	(14)	(40)	(50)	(50)
Net asset turnover (x)	6.0	7.2	7.9	9.0	9.1	Others (incl extraordinary)	25	7	-	-	-
Sales/operating assets (x)	5.9	6.9	7.6	8.6	8.8	Net cash from financing	29	(86)	(40)	(50)	(50)
Current ratio (x)	2.2	2.4	2.5	2.6	2.5	Change in cash position	25	11	(9)	3	3
Net debt-EBITDA (x)	0.8	0.5	0.4	0.4	0.3	Closing cash	69	79	70	73	73
Net debt/equity (x)	1.7	0.9	0.8	0.6	0.6	Half-yearly financials					
Interest coverage (EBITDA)	3.5	5.0	6.8	8.2	9.4		H1FY17	H2FY17	H1FY18	H2FY18	H1FY19
Interest coverage (EBIT)	2.6	4.0	5.6	6.9	7.9	(₹ mn)					
Per share						Operating income	851	960	1,022	1,188	1,170
	FY17	FY18	FY19E	FY20E	FY21E	Change (h-o-h)	-3%	13%	6%	16%	-1%
Adj EPS (₹)	16.8	32.2	46.3	58.4	68.9	EBITDA	87	113	126	147	158
CEPS	32.3	48.0	63.8	77.3	90.3	Change (h-o-h)	25%	29%	12%	16%	8%
Book value	158.6	188.6	223.3	267.1	318.8	EBITDA margin	10.3%	11.8%	12.4%	12.3%	13.5%
Dividend (₹)	3.5	3.5	9.7	12.3	14.5	PAT	19	43	63	68	77
Actual o/s shares (mn)	3.4	3.4	3.4	3.4	3.4	Adj PAT	23	35	49	62	63
						Change (h-o-h)	389%	51%	40%	27%	2%
						Adj PAT margin	2.7%	3.6%	4.8%	5.2%	5.4%
						Adj EPS	6.7	10.1	14.2	18.0	18.5

Source: CRISIL Research

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