CRISIL SME IER IndependentEquityResearch

Thejo Engineering Ltd

Initiating Coverage

Enhancing investment decisions

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)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Thejo Engineering Ltd

Niche engineering player

SME

SME Fundamental Grade	**5/5 (Excellent fundamentals)**
SME Valuation Grade	**3/5 (CMP is aligned)**

October 10, 2012

Fair Value	**Rs 402**
CMP	**Rs 373**

Chennai-based Thejo Engineering Ltd (Thejo) is an established manufacturer of products for conveyor belts and material handling systems; it also provides conveyor-belt related services, including operation and maintenance. A wide product range and association with marquee clients have enabled Thejo secure a diversified client and revenue mix. We expect the company to benefit in the long term from growth in end-user industries (mining, power, steel, cement and ports), increased preference for outsourcing material handling operations and replacement demand. Led by an experienced management, we believe the company will be able to successfully compete in the fragmented Indian market as well as expand internationally. We have assigned SME Fundamental Grade of **5/5** to Thejo, indicating that its fundamentals are **excellent** relative to other SMEs in India.

Sound growth prospects led by expansion in end-user industries

Thejo caters to companies in the mining, power, cement, steel and port industries. These industries are expected to be in an expansion mode in the long term, resulting in increased opportunities in the material handling industry. Customer stickiness in regular and preventive maintenance, and a short product-replacement cycle (six-12 months) ensure revenue stability for established players like Thejo. With the company expanding its international presence by leveraging its credentials in the mining sector, we expect it to post healthy revenue growth going forward.

Operations steered by experienced and professional management

We believe Thejo benefits from the combination of professional management and experienced promoters, a key factor driving the growth of the company – revenues have grown by 26% CAGR over FY08-12. The management has identified opportunities and has indigenously developed and launched products to meet client requirements. Its ability to maintain management bandwidth to oversee expansion plans will be a key monitorable.

Key risks: Cyclicality in end-user industries may adversely affect growth

Thejo has a diversified client mix but most of these clients operate in industries susceptible to changes in economic cycles, which impacts the company's revenues. The company's key client in Australia was acquired by a competitor, which may affect revenues in the near term. Other risks are fluctuation in raw material prices and forex rates, and rise in production costs due to unreliable power supply in Tamil Nadu, where the company's plants are located.

Expect revenues to grow at 28% CAGR over FY12-14

We expect Thejo's revenues to grow by 28% CAGR over FY12-14, driven by demand from end-user industries, debottlenecking of the existing capacity and foray into international market. We expect EBITDA margin to decline to 12.8% in FY13. Adjusted PAT is expected to grow at 28% CAGR over FY12-14. However, EPS is expected to decline in FY13 due to equity infusion through an initial public offering (IPO).

Valuations: We assign valuation of Rs 402 per share

We have used the discounted cash flow (DCF) method to value Thejo and arrived at a fair value of Rs 402 per share. This fair value implies P/E multiples of 9.1x FY13E and 6.1x FY14E and P/B multiples of 1.3x FY13E and 1.1x FY14E. The assigned valuation grade is **3/5**.

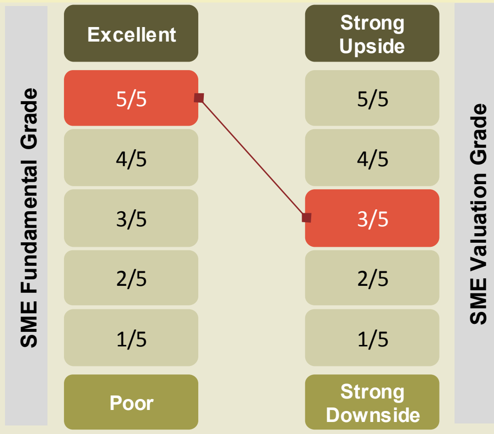
KEY FORECAST

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Operating income	620	899	1,096	1,326	1,765
EBITDA	75	99	151	170	225
Adj net income	23	38	67	75	110
Adj EPS-Rs	19.2	32.3	52.2	44.4	65.4
EPS growth (%)	69.8	68.7	61.5	(14.9)	47.2
RoCE (%)	19.6	23.8	31.6	23.4	23.9
RoE (%)	18.2	24.5	28.7	18.8	18.7

*Computed on post initial public offering basis; CMP: Current market price

Source: Company, CRISIL Research estimates

SME CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5705
NSE EMERGE ticker	THEJO
Face value (Rs per share)	10
Shares outstanding (mn)*	1.7
Market cap (Rs mn)/(US$ mn)	629/12
Enterprise value (Rs mn)/(US$ mn)	798/15
Free float (%)*	43%

SHAREHOLDING PATTERN

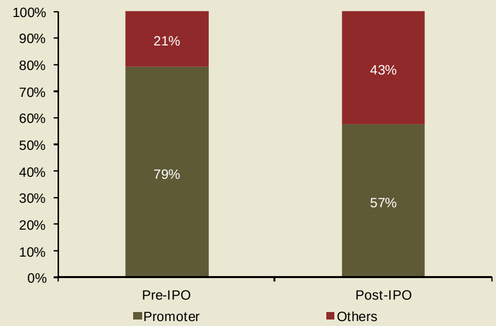


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Table 1: Thejo Engineering – Business environment

Parameter	Products	Services
Revenue Contribution (FY12)	61%	39%
Revenue Contribution (FY14)	58%	42%
Revenue CAGR (FY09-12)	21.2%	29.2%
Revenue CAGR (FY12-14)	23.4%	34.0%
Product/service description	Rubber liners, screening components, hydrocyclones, pump spares, flotation cell and agitators, rubber lined pipes and fittings and others	Conveyor belt splicing, repairs, belt laying, pully lagging and corrosion protection applications
Geographic presence	India, Australia, Ghana, Saudi Arabia	India, Ghana, Saudi Arabia
Market position	Highly fragmented industry with several small and regional players. Thejo has a 60% share in the outsourced operation and maintenance (O&M) business in India	
Demand drivers	■ Expected capital expenditure and capacity addition in sectors such as mining, power, cement, steel and port ■ Increased preference for transfer of material through conveyor systems ■ Entry of private players in infrastructure development. Private players are more likely to outsource non-core activities such as O&M of conveyor systems ■ Entry into international markets for both products and services	
Key risks	■ Thejo's clients operate in cyclical industries ■ Highly competitive nature of the industry ■ Volatility in raw material prices and forex rates	

Source: Company, CRISIL Research

Grading Rationale

Thejo operates in a niche but growing industry

Incorporated in 1986, Thejo Engineering Ltd (Thejo) provides products and services related to conveyor belt operations in bulk material handling, mineral processing and corrosion protection applications in power, cement, steel, ports and mining industries. While the company was initially in the services business, it has backward integrated into manufacturing most commonly used products such as rubber compounds and adhesives. These products have a typical life span of six-12 months as they are used in a high wear-and-tear environment. Hence, there is a strong demand for replacement products which provides assured revenues to the company. An established relationship with marquee clients across industries will help the company generate stable revenues from replacements. Thejo expects to increasingly utilise products which it manufactures, while carrying out O&M activities for its clients.

Strong replacement demand due to high wear and tear of products

End-user demand expected to register steady long-term growth

We believe demand for Thejo's products and services are expected to increase due to:

- Growth in end-user industries combined with increased preference for conveyors to transfer material. Possibility of repeat business from existing customers is high as they prefer to work with vendors with high reliability.
- Increased preference by power, cement and steel players to outsource non-core activities such as O&M of bulk material transfer systems. Additionally, increasing participation from the private sector, especially in the infrastructure sectors, is a positive since private players are more open to outsourcing non-core operations.

Expansion plans in industries like infrastructure, steel, mining and cement are likely to translate into substantial opportunities for ancillary players such as Thejo. The addition of more conveyor lines will also lead to growth in the regular and preventive maintenance services business.

Table 2: Demand for material handling systems expected to grow

User industry	Industry prospects
Mining	India currently mines over 80 minerals, but coal has a significantly large share in the mining industry. Coal India, which accounts for 80% of the coal produced in the country, has outlined a capital expenditure of Rs 244 bn in the 12th Five Year Plan (2012-17) to be spent on development of new mines, beneficiation plants, coal evacuation and equipment.
Power	Over FY11-15, CRISIL Research estimates the balance of plant segment (including coal handling plant) to account for Rs 1.6 trillion investments with opportunities in the coal handling plant expected to be around Rs 405 bn. Nearly 70 GW of coal-based generation capacity is expected to be added over this period.
Steel	We expect around 40-45 mn tonnes of steel capacity to be added in India over the next five years. Large capacity addition is also expected to translate into significant opportunities in the material handling equipment segment.
Cement	71 mtpa of cement capacities to be added over the next five years, translating into capital expenditure of more than Rs 400 bn.
Ports	Between 2012-13 and 2016-17, CRISIL Research expects investments to the tune of Rs 1,027 bn in Indian ports for capacity augmentation, addition of new berths, creation of more storage or warehousing facilities, rail-road connectivity, addition of new equipment, etc.

Source: Industry, CRISIL Research

Looking to expand its presence in international markets

Thejo operates in Australia, Ghana and Saudi Arabia where it sells and instals its products through channel partners or executes maintenance-related projects. Australia and Africa are two of the largest markets for mining-related services and offer huge opportunities for Thejo. It has incorporated a subsidiary in Australia to provide O&M services. Thejo's Australian business will establish Thejo's credentials for entry into South Africa, which has a large mining industry. Also, Thejo has successfully executed a ball mill liners project for a gold mine in Ghana. While Thejo has a reasonable products and services portfolio, we expect Thejo to face stiff competition from international players. Its success in these geographies is a key monitorable.

Diversified client base and revenue mix minimise risks

Caters to marquee clients

Thejo supplies products to marquee clients in public and private sectors in India – JSW Steel, Jindal Steel and Power, SAIL, Sundaram Industries, Singareni Collieries to name a few. No domestic client accounts for more than 6-7% of Thejo's total revenues. Moreover, its revenue streams are diversified across various products and the services business. We believe a reputed client base and a diversified revenue mix minimise the risk of slowdown in any particular market/geography.

Innovation and new product development ensure Thejo's competitive edge in product manufacturing

Thejo has indigenously designed and developed products such as portable vulcanizing equipment, conveyor belt coilers/decoilers, belt cleaning systems, dust suppression systems, etc. all of which are used in the bulk material handling industry. One of its directors, Mr Manoj Joseph, has received a patent for designing a seal for conveyors; this seal helps against spillage of materials. While the revenue contribution from this product is low, it highlights Thejo's focus on innovation, product development and R&D.

Thejo intends to set up an R&D facility to boost its product development. It has recruited Mr Zakaria George, who previously headed the R&D group of a leading tyre manufacturing company, to head the new R&D facility. CRISIL Research believes the strong focus on product development and innovation will help the company brace up for competition from large established players.

Debottlenecking and new facilities to drive growth

While the company currently has a 2,400 tonne per annum (tpa) rubber compound mixing facility, lack of further processing equipment such as rubber moulding presses resulted in low utilisation (~60%) of the mixing facility. Thejo intends to debottleneck the facility to increase production. The company also plans to set up a polyurethane manufacturing facility and create additional infrastructure for rubber lining activities. CRISIL Research believes the company's planned expansion in international markets and cross-selling though its O&M contracts will help it sell the incremental produce.

Cyclicality in end-user industries may affect volumes

Most of Thejo's clients are present in cyclical industries, where demand is linked to economic growth

Most of Thejo's clients are present in cyclical industries where demand is linked to economic growth. Consequently, demand for Thejo's products and services may get impacted during an economic slowdown, wherein cyclical industries may defer capital expenditure as well as scale down production. This is demonstrated in Thejo's historical sales volumes which have grown by a modest 1% CAGR over FY07-12 due to slower growth in domestic economy as well as recessionary conditions internationally. Also, its production declined by 12% and 22% in FY09 and FY10, respectively.

Acquisition of key export client may impact export revenues

One of the key global customers of the company, Losugen Pty Ltd, Australia was acquired by Thejo's competitor, Tega Industries Ltd in February 2011. Losugen used to sell Thejo's products in Australia and accounted for ~13% of total revenues and ~90% of export revenues. While Losugen continued to buy products from Thejo during FY12, we believe the loss of a client is a high risk for the company. To mitigate the risk, Thejo set up its own operations in Australia. The Australian subsidiary will also help the company sell certain products which Losugen currently does not buy from Thejo. However, its ability to sell its products in Australia is a key monitorable.

Competitive landscape

The conveyor belt industry is a fragmented industry with many small players. Larger engineering players such as Mcnally Bharat Engineering, Elecon Engineering, Tecpro Systems and others usually provide a broader range of services (including turnkey) such as design, engineering, installation and commissioning of the equipment compared to Thejo, which is engaged in sub-components of the material handling assembly. Other ancillary players catering to the conveyor belt requirements of user industries include Tega Industries, Oriental Rubber Industries, International Conveyors, Somi Conveyor Beltings, Vega Conveyors & Automation and MIL Industries.

Table 3: Peer comparison

Parameters	Thejo Engineering	Tega Industries	Oriental Rubber	International Conveyors	Somi Conveyor Beltings	Vega Conveyors & Automation	MIL Industries
Product / Service	Manufactures accessories and spares for bulk materials handling equipment, including rubber sheets, glues and vulcanising machines. Also provides O&M services for conveyor systems	Manufactures wear-resistant rubber components and specialised moulded wear resistant products for mineral processing applications and polyurethane lining	Manufactures rubber conveyor belts and wear-protection products. Belts are used in steel, capital goods, power, cement and mining	Leading manufacturer of PVC conveyor belts. Also engaged in wind power generation	Manufactures various grades of conveyor belts used for industrial applications of material handling in various industries like mining, power, cement, fertiliser, steel, sugar and others	Wide range of conveyor systems primarily for the FMCG industry	Manufactures corrosion resistant and abrasion resistant linings for chemical, fertiliser and other process industries, in India and abroad
Market capitalisation (Rs mn)	625	Unlisted	Unlisted	1,124	126	Unlisted	Unlisted
Proportion of exports in overall revenues	22%	70%	70%	66%	4%	Not available	Not available
Revenue (Rs mn)	1,096 (FY12)	1,911 (FY10)	2,104 (FY11)	1,115 (FY12)	362 (FY12)	210 (FY11)	191 (FY11)
Revenue Growth (FY09-12 CAGR)	24.5%	23.0% (FY07-10)	22.4% (FY08-11)	15.2%	16.2%	7.1% (FY08-11)	5.5% (FY08-11)
Average EBITDA margin (FY10-12)	12.3%	30.3% (FY08-10)	11.6% (FY09-11)	22.4%	23.7%	12.0% (FY09-11)	12.1% (FY09-11)
Average PAT margin (FY10-12)	4.5%	13.5% (FY08-10)	4.7% (FY09-11)	8.0%	5.3%	7.1% (FY09-11)	2.3% (FY09-11)

Source: Industry, CRISIL Research

Limited competition in services but high competition in products

The company faces limited competition in the services business. Currently, most of the conveyor operations in the industry are handled by the plant owners. In the outsourced O&M space, Thejo claims a 60% market share; the rest is controlled by smaller unorganised players. CRISIL Research believes that with the expected increase in outsourcing of operations and moderate entry barriers, other players will enter the market and intensify competition. However, Thejo is expected to continue to enjoy the first-mover advantage.

In the products business, Thejo faces stiff competition from large domestic players such as Tega Industries Ltd, MIL Industries Ltd and others as well as international players such as Metson, Rema Tip Top and Nilos Ltd. However, continuous innovation, competitive pricing and strong client relationships have helped Thejo effectively face the competition and grow its products revenues at 24% CAGR over FY07-11.

Key Risks

Volatility in raw material prices and forex rates

CRISIL Research expects prices of rubber (key raw material) to decline by 8-10% in FY13

Rubber (natural and synthetic) is a key raw material (accounting for nearly 40-50% of total raw material costs) used by Thejo along with ceramics and steel components. Volatility in the price of these raw material may adversely affect the company's revenues and profits. The company has been successful in passing on the increase in raw material prices to its customers. Product sales have benefitted from strong uptrend in rubber prices over the past three years. CRISIL Research expects rubber prices to decline by 8-10% in FY13. The decline in rubber prices will affect the average realisation and impact revenues and absolute profits. Further, exports accounted for ~24% of Thejo's H1FY12 revenues. Any change in foreign exchange may adversely affect the financials of the company as it does not hedge its receivables.

Unreliable power supply may increase production costs

Thejo's manufacturing facilities are located in Ponneri, Tamil Nadu. The facilities face frequent power cuts. The company operates backup generators to meet the power requirement, which increases its power costs (3% of total costs).

Management and Corporate Governance

Experienced promoters and professional management

Thejo is promoted by Mr K.J. Joseph and Mr Thomas John who have vast industry experience. Mr Manoj Joseph, Director-Marketing and Mr Rajesh John, Director-Sales are sons of Mr K.J. Joseph and Mr Thomas John, respectively. Both Mr Manoj and Mr Rajesh are engineers and management graduates and are associated with the company for more than 10 years. The company has inducted a professional CEO, Mr V. A. George, in 2007. Mr George is well qualified and has more than 20 years of experience in senior management positions. The second line of management too is experienced. We believe the right mix of professional management and experienced promoters is a key factor driving the growth of the company. The management has been proactive in identifying opportunities and has introduced new products in the domestic market. Since the company is focused on growth in India and global markets, maintaining management bandwidth to oversee growth across operations would be a monitorable, particularly for its international expansion.

Combination of professional management and experienced promoters is a key factor driving Thejo's growth

Independent directors come from diverse backgrounds

The board consists of nine directors of whom five are independent directors. We believe the size of the board is appropriate for the current size of the company and the future progress envisaged. The board possesses diverse expertise in areas of management, finance, law and technology. The board is chaired by Mr K.J. Joseph and Mr Thomas John; Mr Manoj Joseph and Mr Rajesh John are the other directors from the promoter group. The independent directors are qualified and experienced with strong standing in their respective fields. Mr N. Ganga Ram retired as the executive director of IDBI and currently serves as a director on the boards of five companies and some committees of the National Stock Exchange. Mr V.K. Srivastava formerly served as the managing director of Steel Authority of India. Other independent directors are Mr M.P. Vijay Kumar (CFO, Sify Technologies), Mr A. Satyaseelan (advocate, Madras High Court) and Mr C.N. Ramchand (CEO, Laila Pharmaceuticals).

Thejo's independent directors are experienced, with strong standing in their respective fields

Mr John and his family own 37.19% of the company whereas Mr Joseph and his family own 44.98%. Both the promoters and their sons enjoy a healthy professional relationship. The promoters have well defined responsibilities and complementary areas of expertise. However, the professional relationship between the promoter families is a key monitorable.

Financial Outlook and Valuation

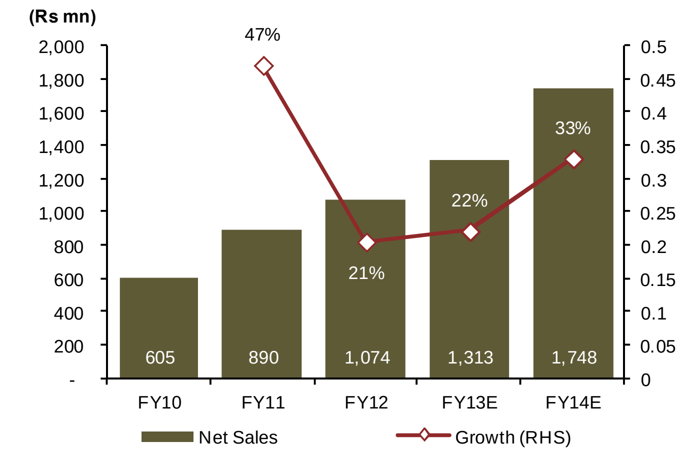
Debottlenecking and entry in international markets to drive 28% revenue CAGR over FY12-14

CRISIL Research expects Thejo's consolidated revenues to grow to Rs 1,748 mn by FY14 at a two-year CAGR of 28% driven by growth across business segments. Despite the weak economic outlook, acquisition of new clients, entry into new geographies along with a stable product replacement demand are expected to boost Thejo's revenue growth.

While de-bottlenecking of manufacturing operations will aid Thejo's product business, foray into international markets will boost the services segment

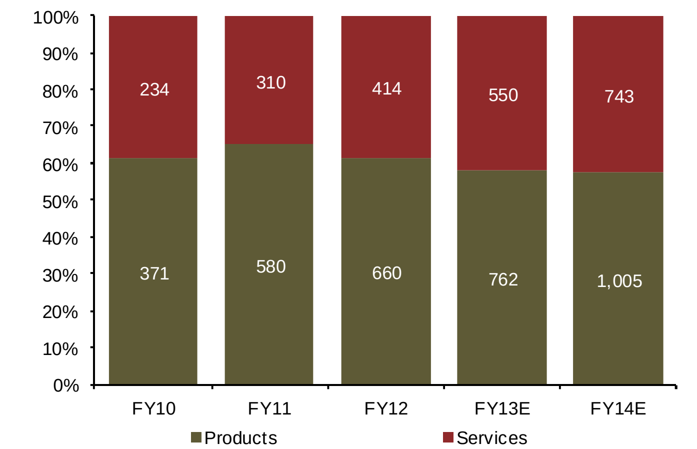
De-bottlenecking of the manufacturing plant will help Thejo increase the sales vlolume of its product business. We expect the full benefit of the de-bottlenecking exercise to accrue from FY14 onwards. The O&M services business will also help Thejo to cross-sell its products thereby boosting product sales. The product business (including exports) is, thus, expected to witness a two-year CAGR of 23% to reach Rs 1,005 mn. The company's recent entry into Australian and Middle Eastern markets through its two subsidiaries is expected to help it expand the services segment at 34% CAGR over FY12-14. Also, the increased outsourcing of conveyor system's O&M by Indian players will aid the long-term growth in the domestic services business.

Figure 1: Revenues to grow at 28% CAGR over FY12-14



Source: Company, CRISIL Research

Figure 2: Revenue contribution from services to increase



Source: Company, CRISIL Research

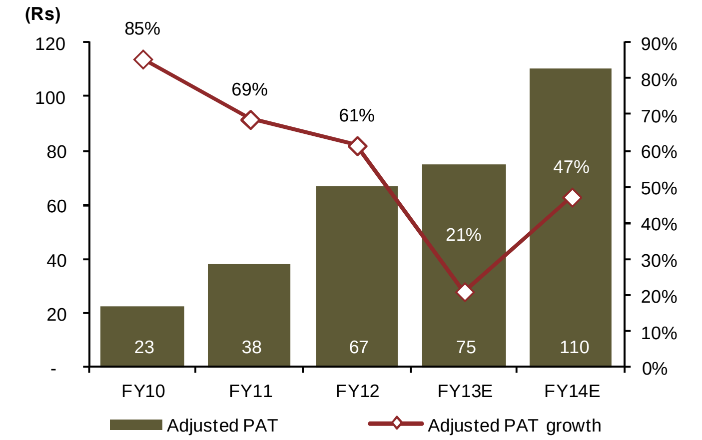
EBITDA margin to decline to 12.8% in FY13

Thejo's EBITDA margins are expected to decline to 12.8%, from 13.7% in FY12, due to lower other operating income. CRISIL Research expects rubber (key raw material for Thejo) prices to decline in FY13 after a sharp run-up in FY12. While declining raw material prices will have a positive effect on EBITDA margins, higher start-up costs of new plant and high operating costs in new subsidiaries during initial years will mitigate the benefit from any decline in raw material price. Hence, we expect EBITDA margin to remain at 12.8% in FY14.

Adjusted PAT to grow at 33% CAGR over FY12-14

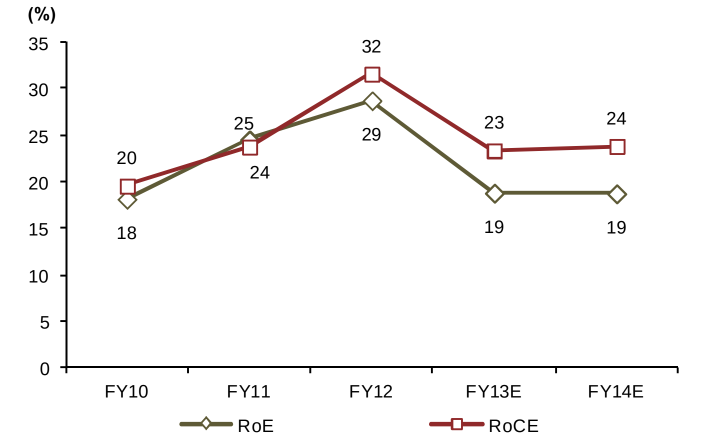
CRISIL Research expects the adjusted PAT to grow to Rs 110 mn in FY14 at two-year CAGR of 33%. However, the equity infusion will lead to EPS growing at a slower 12% CAGR over FY12-14. The increase in equity is also expected to result in RoEs declining to ~18% in FY13-14 from 29% in FY12. However, we expect the same to recover to 20% post FY14 once the new plants start operating at full capacity. The net debt-equity of the company is also expected to improve from 0.8x in FY12 to 0.2x in FY14.

Figure 3: Adjusted PAT to grow at 28% CAGR over FY12-14



Source: Company, CRISIL Research

Figure 4: RoE expected to decline due to equity infusion



Source: Company, CRISIL Research

We assign fair value of Rs 402 per share to Thejo

CRISIL Research has used the discounted cash flow (DCF) method to value Thejo. Our fair value is Rs 402 per share. This fair value implies P/E multiples of 9.0x FY13 E and 6.1x FY14E and P/B multiples of 1.3x FY13E and 1.1x FY14E. At the current market price of Rs 373, the assigned valuation grade is **3/5**.

Our DCF-based fair value for Thejo is Rs 402 per share, implying a P/E of 6.1x FY14E earnings

Key DCF assumptions

We have projected the free cash flow to firm (FCFF) until FY22. We expect revenues to grow at 23% CAGR over FY12-17 (next five years) and then taper down to 11% CAGR over FY17-22. We expect the EBITDA margin to decline from 12.8% in FY14 to 11.7% in FY16 and remain stable thereon. We have assumed terminal growth rate in FCFF at 3%.

WACC computation

	FY14-22	Terminal value
Cost of equity	17.8%	17.8%
Cost of debt (post tax)	9.4%	9.4%
WACC	**13. 9%**	**16.1%**
Terminal growth rate		3.0%

Sensitivity analysis to terminal WACC and terminal growth rate

Terminal WACC	Terminal growth rate: 1.0%	2.0%	3.0%	4.0%	5.0%
14.1%	442	470	505	546	595
15.1%	398	421	448	480	518
16.1%	362	380	**402**	427	457
17.1%	331	347	364	384	408
18.1%	306	318	333	349	368

Relative valuation

While the company does not have any strictly comparable peers, we have compared the multiple valuation with companies in the material handling business (dependent on similar industries/customers such as mining, power, steel and ports). The companies in the material handling industry are trading at a median one-year forward P/E multiple of 6.3x compared to 6.1x implied one-year forward P/E for Thejo (based on our fair value).

Table 4: Relative valuation

		FY12					EPS CAGR (%)	P/E			P/B			EV/EBITDA		
Name	Market Cap. (Rs mn)	Sales (Rs mn)	EBITDA Margin (%)	RoE	D/E	Asset TO	FY12-14	FY12	FY13	FY14	FY12	FY13	FY14	FY12	FY13	FY14
Thejo Engineering**	**629**	**1,096**	**13.7**	**28.7**	**0.9**	**5.0**	**12**	**7.1**	**8.4**	**5.7**	**1.7**	**1.2**	**1.0**	**4.2**	**4.7**	**3.5**
Elecon Engineering Co. Ltd	4,536	16,132	13.4	14	1.3	3.8	7	7.4	7.1	6.4	1	0.9	0.8	4.7	4.6	4.1
TRF Ltd	2,898	13,274	5.9	9	2.8	13.3	34	22	14.3	12.3	1.8	1.7	1.5	8.7	8.3	7.2
Technofab Engineering Ltd	1,407	3,765	13.5	22	0.3	21.3	11	4.1	3.9	3.3	0.8	0.7	0.6	1.6	1.3	1.1
McNally Bharat Engineering Ltd	3,545	22,322	8.5	22	1.9	7.3	24	6.7	5.1	4.4	1.3	1	0.9	4.9	4.2	3.6
Hindustan Dorr-Oliver Ltd	2,056	10,722	8.1	16	1.1	8	15	9.6	5.4	7.3	0.8	0.7	0.7	7.7	5.7	7.3
BGR Energy Systems Ltd	20,811	34,505	13.9	22	1.6	10.3	(3)	9.3	11.4	9.8	1.9	1.6	1.4	5.7	6.9	5.9
Techno Electric Engineering Co. Ltd	10,782	8,199	29.5	20	0.9	0.8	19	8.9	7	6.3	1.6	1.3	1.1	7.9	5.7	5.3
Tecpro Systems Ltd	8,518	25,368	15.9	17.4	1.4	0.7	8	6.9	6.5	5.9	1.1	1	0.8	4.8	4.5	3.9
Median								**7.4**	**7**	**6.3**	**1.3**	**1**	**0.9**	**4.9**	**4.7**	**4.1**

** CRISIL Research estimates

Source: Industry estimates, CRISIL Research

Company Overview

Incorporated in 1986, Chennai-based Thejo is promoted by Mr K. J. Joseph and Mr Thomas John. Currently, Thejo designs, manufactures and supplies products for bulk material handling, mineral processing and corrosion protection to mining, power, steel, cement, ports and fertiliser industries. It also provides O&M services. It has established a subsidiary in Australia, Thejo Australia Pty Ltd, which will offer conveyor belt-related services and rubber lining activities, and sell bulk material handling and corrosion protection products in Western Australia. In Saudi Arabia, it has formed a JV with Hatcon Industrial Services W.L.L. (a Bahrain-based firm supplying products and providing services for oil and gas, petrochemicals, mining and marine sectors).

Figure 5: Thejo's product and service offerings

Source: Company, CRISIL Research

Table 5: Thejo's clientele includes leading companies in end-user industries

Industry	Key clients
Mining	Coal India, National Mineral Development Corp, Kudremukh Iron Ore, MOIL, BHP Billiton, Allmineral Asia, Konkola Copper Mines
Steel	Steel Authority of India, Tata Steel, JSW Steel, Vizag Steel, Jindal Steel & Power, Qatar Steel
Power	NTPC, Jindal Power, Reliance Energy, Tata Power
Cement	Ultratech Cement, Ambuja Cement, Prism Cement, Lafarge India, Gujarat Ambuja, J.K. Lakshmi Cement, ACC, India Cements
Infrastructure	Lanco, Jaypee Group, Adani Group
Others	Hindalco, Reliance Industries, Tata Chemicals, Hindustan Zinc, ITC, Nirma, Essar Group, Ballarpur Industries, Century Pulp and Paper, Rashtriya Chemicals & Fertilizers, IFFCO

Source: Company, CRISIL Research

IPO details

The IPO is in the form of a fresh issue of shares up to Rs 210 mn, of which the company has done pre-IPO placement of Rs 20 mn to SIDBI Trustee Company Ltd A/c India Opportunities Fund managed by SIDBI Venture Capital Ltd. Thejo plans to invest the maximum amount for its Chennai units: Rs 6.8 mn to set up a polyurethane unit, Rs 68.7 mn for expansion of its existing facility, Rs 16.9 mn to set up a lining plant, Rs 28.3 mn to set up an R&D unit. It will invest Rs 64.2 mn in the Australian subsidiary and use the remaining proceeds for general corporate purposes (information not available at the time of grading).

Issue details

Type of issue	Fresh issue
Issue size	Rs 210 mn
Face value	Rs 10
Issue price	Rs 403 per share
Lead managers	IDBI Capital Market Services Ltd
Legal advisors to the issue	Khaitan & Co.
Registrar to the issue	Cameo Corporate Services Ltd

Source: RHP

Table 6: Objects of the issue

Particulars	Total fund requirement (Rs mn)	Amount deployed till July 2012 (Rs mn)	Estimated amount to be utilised from net proceeds (Rs mn)	Estimated utilisation of net proceed (Rs mn)	
				FY13	FY14
Setting up a polyurethane unit in Chennai	6.8	3.4	6.8	3.4	-
Expansion of existing facility (Unit I) in Chennai	68.7	3.8	68.7	64.9	-
Setting up a lining plant in Chennai	16.9	-	16.9	16.9	-
Setting up R&D unit in Chennai	28.3	1.9	28.3	26.4	-
Investment in Australian subsidiary - Thejo Australia Pty Ltd	64.2	-	64.2	64.2	-
General corporate purposes#	-	-	-	-	-
Total*	**184.9**	**9.1**	**184.9**	**175.8**	**-**

* Total does not include expenses for general corporate purposes and issue related expenses; #not yet available

Source: RHP

Annexure: Financials

Income statement

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Operating income	**620**	**899**	**1,096**	**1,326**	**1,765**
EBITDA	**75**	**99**	**151**	**170**	**225**
EBITDA margin	**12.1%**	**11.0%**	**13.7%**	**12.8%**	**12.8%**
Depreciation	15	15	16	24	32
EBIT	60	**84**	**134**	**145**	**194**
Interest	26	28	37	36	34
Operating PBT	34	**56**	**98**	**110**	**160**
Other income	1	1	2	2	4
Exceptional inc/(exp)	-	-	28	-	-
PBT	35	**58**	**128**	**112**	**164**
Tax provision	12	19	38	37	54
Minority interest	-	-	-	-	-
PAT (Reported)	**23**	**38**	**90**	**75**	**110**
Less: Exceptionals	-	-	23	-	-
Adjusted PAT	**23**	**38**	**67**	**75**	**110**

Ratios

	FY10	FY11	FY12	FY13E	FY14E
Growth					
Operating income (%)	9.2	44.9	22.0	20.9	33.2
EBITDA (%)	18.4	32.2	52.2	12.6	32.9
Adj PAT (%)	85.5	68.7	61.5	21.1	47.2
Adj EPS (%)	69.8	68.7	61.5	(14.9)	47.2
Profitability					
EBITDA margin (%)	12.1	11.0	13.7	12.8	12.8
Adj PAT Margin (%)	3.7	4.3	5.6	5.6	6.2
RoE (%)	18.2	24.5	28.7	18.8	18.7
RoCE (%)	19.6	23.8	31.6	23.4	23.9
RoIC (%)	18.2	22.1	26.9	20.1	20.0
B/S ratios					
Inventory days	48	41	49	50	50
Creditors days	65	77	78	77	75
Debtor days	115	107	102	102	100
Working capital days	114	85	100	103	99
Gross asset turnover (x)	3.4	4.5	5.0	4.0	4.1
Net asset turnover (x)	7.3	10.2	11.2	7.1	6.7
Sales/operating assets (x)	7.0	10.0	10.8	6.8	6.6
Current ratio (x)	2.7	2.1	2.1	2.3	2.3
Debt-equity (x)	1.4	1.1	0.9	0.4	0.4
Net debt/equity (x)	1.1	0.9	0.8	0.3	0.3
Interest coverage	2.3	3.0	3.7	4.1	5.8

Per share

	FY10	FY11	FY12	FY13E	FY14E
Adj EPS (Rs)	19.2	32.3	52.2	44.4	65.4
Book value	117.7	146.0	217.3	319.5	378.3

Balance Sheet

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Liabilities					
Equity share capital	12	12	12	17	17
Reserves	128	161	246	522	621
Minorities	-	-	-	-	-
Net worth	**139**	**173**	**257**	**539**	**638**
Convertible debt	-	-	-	-	-
Other debt	199	196	224	224	224
Total debt	**199**	**196**	**224**	**224**	**224**
Deferred tax liability (net)	2	2	3	3	3
Total liabilities	**341**	**371**	**484**	**766**	**865**
Assets					
Net fixed assets	89	88	107	268	257
Capital WIP	-	3	6	6	6
Total fixed assets	**89**	**91**	**113**	**274**	**262**
Investments	3	3	20	20	20
Current assets					
Inventory	64	81	116	145	193
Sundry debtors	207	287	332	414	538
Loans and advances	85	110	189	212	265
Cash & bank balance	43	49	27	55	50
Marketable securities	-	-	-	-	-
Total current assets	**399**	**527**	**664**	**826**	**1,046**
Total current liabilities	**151**	**250**	**313**	**355**	**464**
Net current assets	**249**	**277**	**351**	**471**	**582**
Intangibles/Misc. expenditure	**0**	**0**	**0**	**0**	**0**
Total assets	**341**	**371**	**484**	**766**	**865**

Cash flow

(Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Pre-tax profit	35	58	100	112	164
Total tax paid	(12)	(20)	(37)	(37)	(54)
Depreciation	15	15	16	24	32
Working capital changes	(43)	(23)	(96)	(92)	(116)
Net cash from operations	**(5)**	**30**	**(17)**	**7**	**26**
Cash from investments					
Capital expenditure	(16)	(16)	(39)	(185)	(20)
Investments and others	(3)	-	(17)	-	-
Net cash from investments	**(19)**	**(16)**	**(56)**	**(185)**	**(20)**
Cash from financing					
Equity raised/(repaid)	10	-	-	210	-
Debt raised/(repaid)	37	(3)	28	-	-
Dividend (incl. tax)	(4)	(5)	(6)	(4)	(11)
Others (incl extraordinaries)	(0)	(0)	28	-	-
Net cash from financing	**43**	**(8)**	**50**	**206**	**(11)**
Change in cash position	19	5	(22)	28	(5)
Closing cash	43	49	27	55	50

Source: CRISIL Research

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