

Thejo Engineering Ltd

H2FY13 Result Update

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)

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Last updated: May, 2013

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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SME Fundamental Grade 5/5 (Excellent fundamentals)

SME Valuation Grade 3/5 (CMP is aligned)

Thejo Engineering Ltd's (Thejo's) H2FY13 and FY13 results were in line with CRISIL Research's expectations. Standalone revenues grew 12% y-o-y to ₹717 mn driven primarily by 26% y-o-y growth in the services business (conveyor-belt related services). The products business declined 5% y-o-y due to weak demand and cancellation of one large export order. Standalone EBITDA margin increased 149 bps y-o-y due to lower rubber prices (a key raw material) and operating leverage. Standalone adjusted net profit increased 43% y-o-y to ₹59 mn. Consolidated revenues for FY13 grew 18% to ₹1,378 mn. Consolidated adjusted net profit of ₹78 mn was lower than standalone profit of ₹97 mn due to start-up related costs for its Australian subsidiary. We continue to expect the company to benefit from increased outsourcing of conveyor-belt related O&M operations by various industries. Further, debottlenecking of its manufacturing plant in H1FY14 and growth in Australian subsidiary are likely to help the company increase its sales volumes. Consequently, we maintain our SME Fundamental Grade of **5/5** indicating the company's fundamentals are **excellent** relative to other SMEs in India.

Services business drives FY13 growth, product revenues stagnant

Consolidated FY13 revenues in the services business increased 32% y-o-y, in line with our expectation, as it benefitted from increased outsourcing of conveyor-belt related O&M activities. The products business' revenues, however, increased at 7% primarily due to weak demand. One large export order of ₹50 mn, expected to be executed in H2FY13, was cancelled as the customer's expansion plans were delayed. The management has indicated that Thejo's unexecuted order book stands at ₹600 mn, which provides strong revenue visibility for the next 6-8 months. The demand environment remains monitorable.

Debottlenecking of moulding plant and setting up of lining plant delayed

The company has completed setting up of the polyurethane unit and the R&D unit at a cost of ₹35.1 mn. However, the setting up of a shed for rubber-lining activities (₹16.9 mn) has been delayed by three months and is now expected to be completed in the first week of July 2013. Debottlenecking of the moulding plant has been delayed by six months and is likely to be completed by September 2013. We have lowered our earnings estimates by 6% for FY14 and by 8% for FY15 to factor in the delays.

Fire in factory may affect H1FY14 financials

A fire in the company's Ponneri factory in April 2013 led to a loss of ₹41 mn of stock. The management indicated that the stock was insured and it has raised the claim with the insurance agency. Receipt of claims lower than the lost amount may adversely affect the company's financials in H1FY14. The management indicated that there has been no loss of production due to the fire.

Fair value maintained at ₹402

We have lowered our FY14 earnings estimates and rolled forward our valuation to FY15. Our discounted cash-flow based fair value is maintained at ₹402. Our valuation grade is **3/5**.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E
Operating income	899	1,096	1,289	1,611	1,948
EBITDA	99	151	171	206	229
Adj Net income	38	67	78	104	118
Adj EPS-₹	32.3	56.4	46.5	61.6	70.2
EPS growth (%)	68.7	74.5	(17.6)	32.4	14.0
Dividend Yield (%)	0.9	1.1	1.3	1.4	2.4
RoCE (%)	23.8	31.6	23.2	22.6	23.6
RoE (%)	24.5	31.1	20.3	18.5	18.0
PE (x)	11.4	6.6	8.0	6.0	5.3
P/BV (x)	2.5	1.7	1.2	1.0	0.9
EV/EBITDA (x)	5.9	4.2	4.3	3.6	3.2

Source: Company, CRISIL Research estimates

June 12, 2013

Fair Value ₹402

CMP ₹370

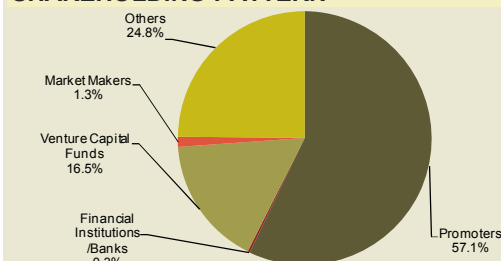
SME CFV MATRIX

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

KEY STOCK STATISTICS

NIFTY	5760
NSE EMERGE ticker	THEJO
Face value (₹ per share)	10
Shares outstanding (mn)	1.7
Market cap (₹ mn)/(US\$ mn)	624/11
Enterprise value (₹ mn)/(US\$ mn)	729/13
Free float (%)	43

SHAREHOLDING PATTERN



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Q4FY13 Standalone Results Summary

(₹ mn)	H2FY13	H1FY13	H2FY12	q-o-q (%)	y-o-y (%)	FY13	FY12	y-o-y (%)
Net sales	713	620	631	15	13	1,334	1,154	16
Other operating income	3	6	9	(49)	(64)	10	17	(42)
Operating Income	717	627	640	14	12	1,343	1,170	15
Raw material consumption	220	177	199	24	11	397	406	(2)
as % of Operating income	30.7%	28.2%	31.0%	249bps	(31)	29.6%	34.7%	(515)
Employee costs	207	205	185	1	12	412	318	29
Other expenditure	182	163	170	12	7	344	301	14
EBITDA	108	83	87	31	24	191	145	32
EBITDA margin	15.1%	13.2%	13.6%	190bps	149bps	14.2%	12.4%	182bps
Depreciation	11	9	9	22	28	20	16	26
EBIT	97	73	78	32	24	170	129	32
Interest	17	21	21	(22)	(21)	38	37	4
Other Income	8	4	5	94	48	12	8	38
Extra-ordinary Income/ (Expenses)	-	-	28			-	28	(100)
PBT	88	56	91	57	(3)	144	129	12
Tax	28	18	26	58	9	46	38	20
Reported PAT	59	38	64	57	(8)	97	90	8
Extra-ordinary Income/ (Expenses) - post tax			23				23	(100)
Adjusted PAT	59	38	41	57	43	97	67	45
Adjusted PAT margin	8.3%	6.1%	6.5%	224bps	182	7.3%	5.7%	153
No. of equity shares (mn)	1.7	1.7	1.2	2	45	1.7	1.2	45
Adjusted EPS	34.6	22.5	35.0	54	(1)	56.8	56.6	0

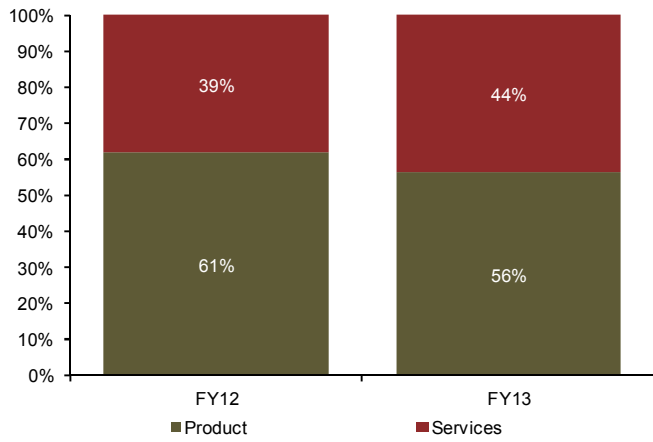
Source: Company, CRISIL Research

Comparison of estimates vs. actual of FY13 financials

(₹ mn)	FY13		
	Estimates	Actual	change
Net Sales	1,313	1,279	-3%
Other income	13	10	-26%
INCOME	1,326	1,289	-3%
EBITDA	170	171	1%
EBITDA margin	12.8%	13.3%	
Depreciation	24	26	8%
EBIT	145	145	0%
Interest	36	38	7%
Other income	2	12	448%
XO Income	-	-	
PBT	112	119	6%
Tax	37	40	9%
PAT	75	78	5%

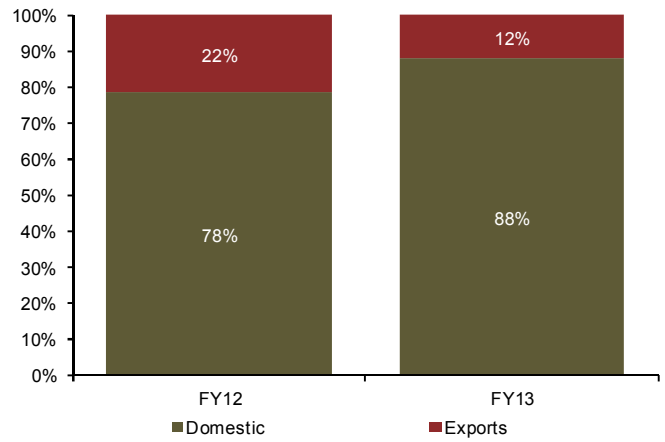
Source: Company, CRISIL Research

Share of services revenues has increased



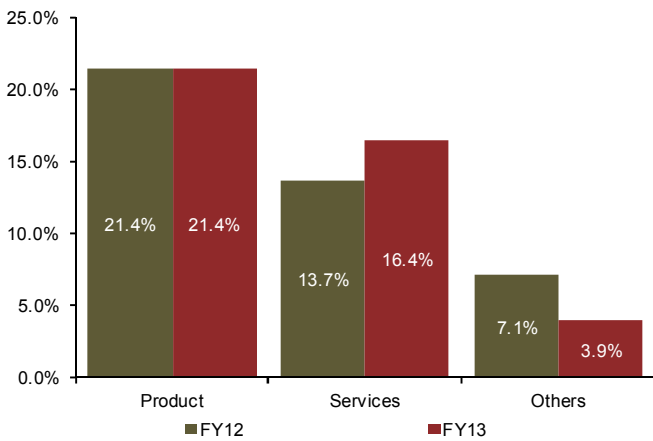
Source: Company, CRISIL Research

Cancellation of an order lowered share of export revenues



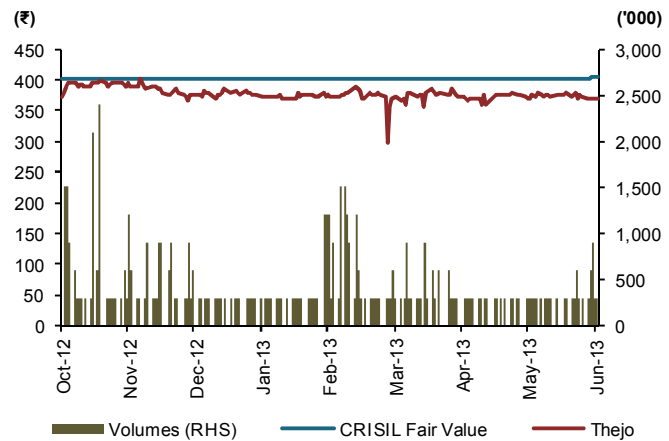
Source: Company, CRISIL Research

Segment-wise EBIT margin



Source: Company, CRISIL Research

Fair value movement since initiation



Source: NSE, CRISIL Research



FY14 estimates reduced; introduced FY15 estimates

	FY14E			FY15E
	Earlier	New	Change	New
Net Sales	1,748	1,595	-9%	1,929
Other income	17	16	-9%	19
Income	1,765	1,611	-9%	1,948
EBITDA	225	206	-9%	229
EBITDA margin	12.8%	12.8%		11.8%
Depreciation	32	30	-6%	32
EBIT	194	176	-9%	197
Interest	34	33	-3%	25
Other income	4	12	167%	4
XO Income	-	-		-
PBT	164	155	-6%	177
Tax	54	51	-6%	58
PAT	110	104	-6%	118

Source: CRISIL Research

Reasons for changes in estimates

Line item	FY14
Revenues	<ul style="list-style-type: none"> ■ Delays in capacity expansions ■ Weak demand scenario.
EBITDA margins	<ul style="list-style-type: none"> ■ Maintained
PAT	<ul style="list-style-type: none"> ■ Lower primarily due to reduction in sales expectation

Source: CRISIL Research

Valuation

Grade: 3/5

We have introduced FY15 estimates and rolled forward our valuation. We have also reduced our earnings estimates to factor in delays in capacity expansion and weak demand. Our fair value is maintained at ₹402. Our fair value implies P/E multiple of 6.5x FY14E and 5.7x FY15E EPS. At the current market price of ₹370, our valuation grade is **3/5**.

Rolled forward valuation to FY15

CRISIL SME IER reports released on Thejo Engineering Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
9-Oct-2012	Initiating Coverage	5/5	₹402	3/5	₹373
9-Nov-2012	H1FY13 Result Update	5/5	₹402	3/5	₹395
12-Jun-2013	H2FY13 Result Update	5/5	₹402	3/5	₹370

Annexure: Financials

Income statement						Balance Sheet					
(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E	(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E
Operating income	899	1,096	1,289	1,611	1,948	Liabilities					
EBITDA	99	151	171	206	229	Equity share capital	12	12	17	17	17
EBITDA margin	11.0%	13.7%	13.3%	12.8%	11.8%	Reserves	161	243	494	588	688
Depreciation	15	16	26	30	32	Minorities	-	3	3	3	3
EBIT	84	134	145	176	197	Net worth	173	257	514	608	708
Interest	28	37	38	33	25	Convertible debt	-	-	-	-	-
Operating PBT	56	98	107	143	172	Other debt	196	224	258	178	178
Other income	1	2	12	12	4	Total debt	196	224	258	178	178
Exceptional inc/(exp)	-	28	-	-	-	Deferred tax liability (net)	2	3	-	3	3
PBT	58	128	119	155	177	Total liabilities	371	484	772	789	889
Tax provision	19	38	40	51	58	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	88	107	231	242	230
PAT (Reported)	38	90	78	104	118	Capital WIP	3	6	(0)	(0)	(0)
Less: Exceptionals	-	23	-	-	-	Total fixed assets	91	113	231	242	230
Adjusted PAT	38	67	78	104	118	Investments	3	20	-	-	-
Ratios						Cash flow					
	FY11	FY12	FY13#	FY14E	FY15E	(₹ mn)	FY11	FY12	FY13#	FY14E	FY15E
Growth						Pre-tax profit	58	100	119	155	177
Operating income (%)	44.9	22.0	17.5	25.0	20.9	Total tax paid	(20)	(37)	(43)	(48)	(58)
EBITDA (%)	32.2	52.2	13.7	20.2	11.3	Depreciation	15	16	26	30	32
Adj PAT (%)	68.7	74.5	17.3	32.4	14.0	Working capital changes	(23)	(96)	(71)	(95)	(103)
Adj EPS (%)	68.7	74.5	(17.6)	32.4	14.0	Net cash from operations	30	(17)	30	41	47
Profitability						Cash from investments					
EBITDA margin (%)	11.0	13.7	13.3	12.8	11.8	Capital expenditure	(16)	(39)	(144)	(41)	(20)
Adj PAT Margin (%)	4.3	6.1	6.1	6.4	6.1	Investments and others	-	(17)	20	-	-
RoE (%)	24.5	31.1	20.3	18.5	18.0	Net cash from investments	(16)	(56)	(124)	(41)	(20)
RoCE (%)	23.8	31.6	23.2	22.6	23.6	Cash from financing					
RoIC (%)	22.1	26.9	24.2	21.8	19.0	Equity raised/(repaid)	-	-	210	-	-
Valuations						Debt raised/(repaid)	(3)	28	34	(80)	-
Price-earnings (x)	11.4	6.6	8.0	6.0	5.3	Dividend (incl. tax)	(5)	(6)	(10)	(10)	(18)
Price-book (x)	2.5	1.7	1.2	1.0	0.9	Others (incl extraordinary)	(0)	23	(22)	-	-
EV/EBITDA (x)	5.9	4.2	4.3	3.6	3.2	Net cash from financing	(8)	45	212	(90)	(18)
EV/Sales (x)	0.7	0.6	0.6	0.5	0.4	Change in cash position	5	(27)	119	(90)	10
Dividend payout ratio (%)	10.8	5.0	10.7	8.5	12.8	Closing cash	49	27	146	56	65
Dividend yield (%)	0.9	1.1	1.3	1.4	2.4	Half-yearly financials (standalone)					
B/S ratios						(₹ mn)	H2FY12	H1FY13	H2FY13		
Inventory days	41	49	51	50	49	Operating income	640	627	717		
Creditors days	77	78	86	75	70	Change (q-o-q)				-2%	14.3%
Debtor days	107	102	104	100	100	EBITDA	87	83	108		
Working capital days	85	100	102	99	99	Change (q-o-q)				-5%	30.8%
Gross asset turnover (x)	4.5	5.0	4.1	4.0	4.4	EBITDA margin	13.6%	13.2%	15.1%		
Net asset turnover (x)	10.2	11.2	7.6	6.8	8.2	PAT	64	38	59		
Sales/operating assets (x)	10.0	10.8	7.5	6.8	8.3	Adj PAT	41	38	59		
Current ratio (x)	2.1	2.1	2.3	2.3	2.3	Change (q-o-q)				-8%	56.5%
Debt-equity (x)	1.1	0.9	0.5	0.3	0.3	Adj PAT margin	6.5%	6.1%	8.3%		
Net debt/equity (x)	0.9	0.8	0.2	0.2	0.2	Adj EPS	35.0	22.5	34.6		
Interest coverage	3.0	3.7	3.8	5.4	7.9						
Per share											
	FY11	FY12	FY13#	FY14E	FY15E						
Adj EPS (₹)	32.3	56.4	46.5	61.6	70.2						
CEPS	44.8	70.0	62.0	79.3	89.2						
Book value	146.0	217.3	305.1	360.5	420.1						
Dividend (₹)	3.5	4.0	5.0	5.3	9.0						
Actual o/s shares (mn)	1.2	1.2	1.7	1.7	1.7						

Source: CRISIL Research

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- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 12 standard indices and over 80 customised indices
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