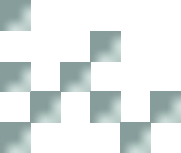


Thejo Engineering Ltd

H1FY14 Results 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)

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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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) H1FY14 results were below CRISIL Research's expectations. Slowdown in conveyor belt operations and maintenance services business, and decline in export revenues impacted sales growth. The decline in product exports was triggered by loss of business from one of the key dealers in Australia, which was acquired by Thejo's competitor. Net sales declined 0.5% y-o-y to ₹617 mn. While product revenues dropped 14% y-o-y, services revenues grew 1.1% y-o-y. The product business' EBIT margin contracted 64 bps y-o-y and that of the services business contracted by 474 bps y-o-y; the latter is on account of set-up cost for distributing products in Brazil. Thejo has appointed a marketing consultant to distribute its products in Brazil which has also impacted its margins. We maintain our fundamental grade of **SME fundamental grade of 5/5**.

Loss of business from key dealer in Australia; Thejo's subsidiary to counter the impact

One of Thejo's key dealers in Australia was acquired by Thejo's competitor in FY11. We had highlighted this as a key risk to export revenues. While the acquisition took place in FY11, the risk has now played out and has impacted export revenues in this quarter. Thejo has already set up a subsidiary in Australia, Thejo Australia Pty Ltd, which now sells its products directly in Australia.

Acquisition of stake by Bridgestone Corporation in Australian subsidiary a positive

Bridgestone Corporation (multinational auto and truck parts manufacturer), through its wholly owned subsidiary, acquired 26% stake in Thejo Australia Pty Ltd in October 2013. Thejo Australia will act as a distribution agent and service partner for Bridgestone Corporation's products (mainly conveyor belts) in Australia.

Has received partial insurance claim amount on loss of stock due to fire

Thejo's factory had lost ₹47.4 mn worth of stock due to fire in its godown in April 2013. The company has received an ad hoc amount of ₹15 mn towards the claim. The management expects the balance to be settled in due time.

Earnings estimates revised downwards

We have revised our earnings estimates downwards after factoring in the impact of slowdown in the services segment and loss of business from a key dealer in Australia. Our revenue estimates are reduced by 18% in FY14 and 13% in FY15. We have reduced our EBITDA margin estimate for FY14 from 12.8% to 11.8% to factor in slower revenue growth. Our net profit estimates are reduced by 33% and 16% for FY14 and FY15 respectively.

Valuations: Fair value revised to ₹182 per share

We have used discounted cash flow method to value Thejo. The fair value has been revised to ₹182 per share from ₹201 per share. This fair value implies P/E multiples of 9.0x FY14E and 6.3x FY15E. The assigned valuation grade is **3/5**.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	899	1,096	1,279	1,314	1,694
EBITDA	99	151	180	155	199
Adj net income	38	67	78	69	99
Adj EPS-₹	16.2	28.2	22.7	20.2	28.8
EPS growth (%)	68.7	74.5	(19.5)	(11.0)	42.6
Dividend yield (%)	0.9	1.0	1.3	0.9	1.8
RoCE (%)	23.8	31.6	25.0	17.3	22.4
RoE (%)	24.5	31.1	21.0	13.5	16.8
PE (x)	12.4	7.1	8.8	9.9	6.9
P/BV (x)	2.7	1.8	1.4	1.3	1.1
EV/EBITDA (x)	6.3	4.5	4.6	5.3	4.1

Source: Company, CRISIL Research estimates

Note: The company has announced bonus shares in the ratio of 1:1 and our fair value has been adjusted accordingly.

November 27, 2013

Fair Value ₹182

CMP ₹200

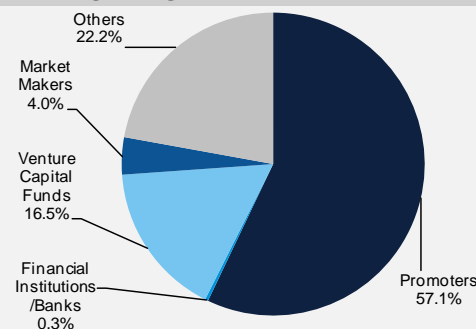
SME CFV MATRIX

	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	6057
NSE EMERGE ticker	THEJO
Face value (₹ per share)	10
Shares outstanding (mn)*	1.7
Market cap (₹ mn)/(US\$ mn)	343/5
Enterprise value (₹ mn)/(US\$ mn)	464/7
Free float (%)*	43%

SHAREHOLDING PATTERN



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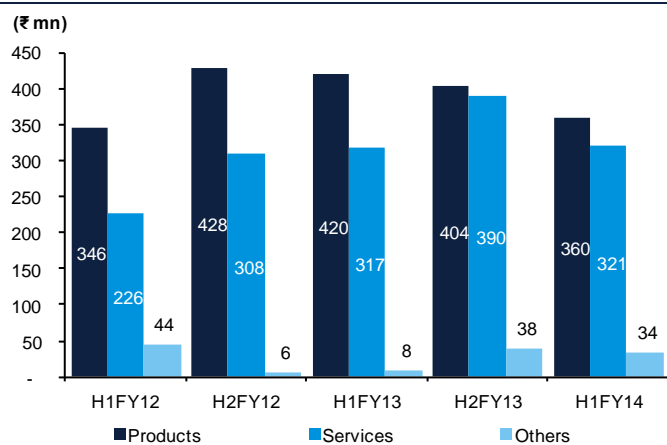
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H1FY14 Standalone Results Summary

	H1FY14	H2FY13	H1FY13	h-o-h (%)	y-o-y (%)
Net sales	617	713	620	(13)	(1)
Other operating income	3	3	6	(19)	(59)
Operating income	620	717	627	(14)	(1)
Raw material consumption	152	220	177	(31)	(14)
as % of operating income	24.5%	30.7%	28.2%	-619bps	(370)
Employee costs	207	207	205	(0)	1
Other expenditure	189	182	163	4	16
EBIDTA	72	108	83	(33)	(12)
EBIDTA margin	11.7%	15.1%	13.2%	-341bps	-151bps
Depreciation	12	11	9	6	29
EBIT	60	97	73	(38)	(18)
Interest	22	17	21	30	1
Other income	8	8	4	0	95
Extraordinary income/ (expenses)	-	-	-	NM	NM
PBT	46	88	56	(47)	(17)
Tax	16	28	18	(45)	(13)
Reported PAT	31	59	38	(48)	(19)
Adjusted PAT	31	59	38	(48)	(19)
Adjusted PAT margin	5.0%	8.3%	6.1%	-333bps	(109)
No. of equity shares (mn)	3.4	1.7	3.4	100	0
Adjusted EPS	9.0	34.6	11.1	(74)	(19)

Source: Company, CRISIL Research

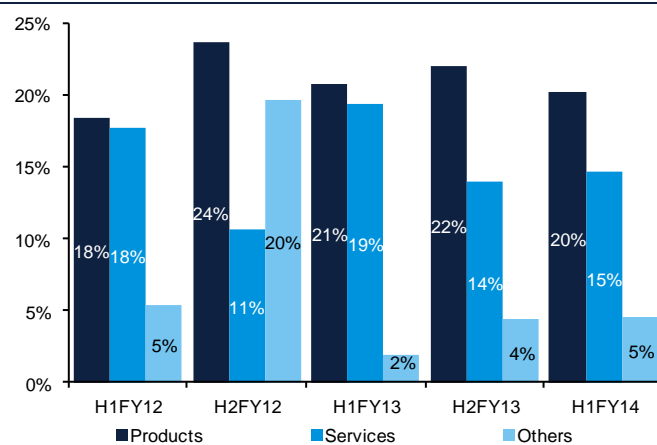
Segmental revenues



*Including inter-segment transactions

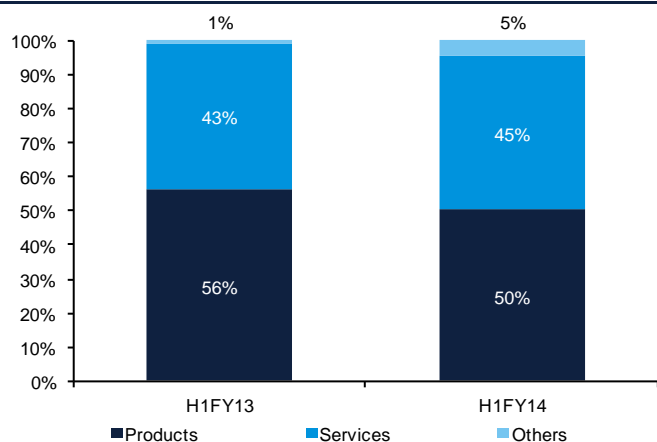
Source: Company, CRISIL Research

Segmental EBIT margin trend



Source: Company, CRISIL Research

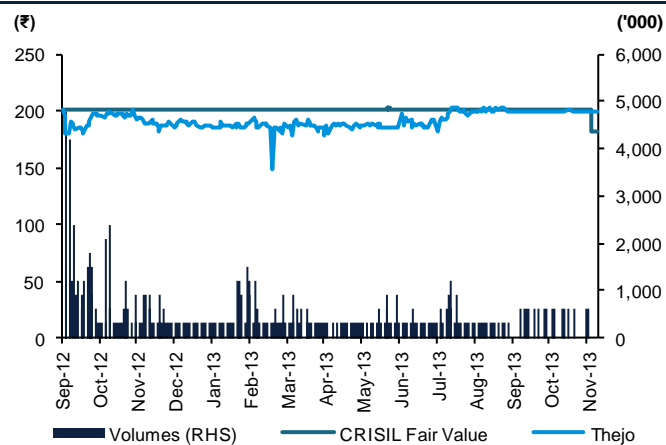
Revenue mix



*Including inter-segment transactions

Source: Company, CRISIL Research

Fair value and share price movement

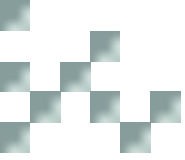


Source: NSE, CRISIL Research

Earnings Estimates Revised Downwards

In ₹ mn	FY14E			FY15E		
	Earlier	Now	change	Earlier	Now	change
Net sales	1,595	1,301	-18%	1,929	1,677	-13%
Other income	16	13	-18%	19	17	-13%
Income	1,611	1,314	-18%	1,948	1,694	-13%
EBITDA	206	155	-25%	229	199	-13%
EBITDA margin	12.8%	11.8%	-8%	11.8%	11.8%	
Depreciation	30	29	-1%	32	33	2%
EBIT	176	126	-28%	197	167	-15%
Interest	33	32	-2%	25	22	-12%
Other income	12	10	-16%	4	3	-36%
Extra-ordinary income/(expenses)	-	-		-	-	
PBT	155	104	-33%	177	148	-16%
Tax	51	34	-33%	58	49	-16%
PAT	104	69	-33%	118	99	-16%

Source: CRISIL Research estimates



Valuation

Grade: 3/5

The fair value has been revised from ₹201 to ₹182 per share. This fair value implies P/E multiple of 9x FY14E and 6.3x FY15E EPS. At the current market price of ₹200, the valuation grade is **3/5**.

Fair value revised to ₹182 per share

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	₹201	3/5	₹187
9-Nov-2012	H1FY13 Result Update	5/5	₹201	3/5	₹198
12-Jun-2013	H2FY13 Result Update	5/5	₹201	3/5	₹185
27-Nov-2013	H1FY14 Result Update	5/5	₹182	3/5	₹200

Annexure: Financials

Income statement

(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	899	1,096	1,279	1,314	1,694
EBITDA	99	151	180	155	199
EBITDA margin	11.0%	13.7%	14.1%	11.8%	11.8%
Depreciation	15	16	26	29	33
EBIT	84	134	154	126	167
Interest	28	37	38	32	22
Operating PBT	56	98	116	94	145
Other income	1	2	3	10	3
Exceptional inc/(exp)	-	28	-	-	-
PBT	58	128	118	104	148
Tax provision	19	38	40	34	49
Minority interest	-	-	-	-	-
PAT (Reported)	38	90	78	69	99
Less: Exceptionals	-	23	-	-	-
Adjusted PAT	38	67	78	69	99

Ratios

	FY11	FY12	FY13	FY14E	FY15E
Growth					
Operating income (%)	44.9	22.0	16.6	2.8	28.9
EBITDA (%)	32.2	52.2	19.5	(13.7)	28.4
Adj PAT (%)	68.7	74.5	16.7	(11.0)	42.6
Adj EPS (%)	68.7	74.5	(19.5)	(11.0)	42.6
Profitability					
EBITDA margin (%)	11.0	13.7	14.1	11.8	11.8
Adj PAT Margin (%)	4.3	6.1	6.1	5.3	5.8
RoE (%)	24.5	31.3	21.2	13.5	16.9
RoCE (%)	23.8	31.7	25.1	17.3	22.5
RoIC (%)	22.1	27.0	22.9	17.7	17.8
Valuations					
Price-earnings (x)	12.4	7.1	8.8	9.9	6.9
Price-book (x)	2.7	1.9	1.4	1.3	1.1
EV/EBITDA (x)	6.3	4.5	4.6	5.3	4.1
EV/Sales (x)	0.7	0.6	0.7	0.6	0.5
Dividend payout ratio (%)	10.8	5.0	11.0	8.5	12.8
Dividend yield (%)	0.9	1.0	1.3	0.9	1.8
B/S ratios					
Inventory days	41	49	54	48	48
Creditors days	77	78	85	80	80
Debtor days	107	102	104	100	100
Working capital days	85	100	95	94	91
Gross asset turnover (x)	4.5	5.0	4.1	3.1	3.6
Net asset turnover (x)	10.2	11.2	7.6	5.2	6.4
Sales/operating assets (x)	10.0	10.8	7.3	5.1	6.3
Current ratio (x)	2.1	2.1	2.2	2.1	2.1
Debt-equity (x)	1.1	0.9	0.5	0.3	0.2
Net debt/equity (x)	0.9	0.8	0.3	0.2	0.2
Interest coverage	3.0	3.7	4.0	3.9	7.6

Per share

	FY11	FY12	FY13	FY14E	FY15E
Adj EPS (₹)	16.2	28.2	22.7	20.2	28.8
CEPS	22.4	35.0	30.3	28.8	38.3
Book value	73.0	107.4	140.2	158.4	182.9
Dividend (₹)	1.8	2.0	2.5	1.7	3.7
Actual o/s shares (mn)	2.4	2.4	3.4	3.4	3.4

Balance Sheet

(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Liabilities					
Equity share capital	12	12	17	34	34
Reserves	161	243	464	510	594
Net worth	173	254	481	544	628
Minorities	-	3	3	3	3
Convertible debt	-	-	-	-	-
Other debt	196	224	264	164	149
Total debt	196	224	264	164	149
Deferred tax liability (net)	2	3	(1)	(1)	(1)
Total liabilities	371	484	747	710	779
Assets					
Net fixed assets	88	107	231	270	263
Capital WIP	3	6	5	5	(0)
Total fixed assets	91	113	236	275	262
Investments	3	20	19	19	19
Current assets					
Inventory	81	116	144	144	186
Sundry debtors	287	332	402	405	522
Loans and advances	110	189	229	197	237
Cash & bank balance	49	27	122	35	24
Marketable securities	-	-	-	-	-
Total current assets	527	664	898	781	969
Total current liabilities	250	313	405	365	471
Net current assets	277	351	493	416	498
Intangibles/Misc. expenditure	0	0	0	0	0
Total assets	371	484	747	710	779

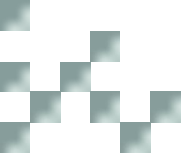
Cash flow

(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Pre-tax profit	58	100	118	104	148
Total tax paid	(20)	(37)	(44)	(34)	(49)
Depreciation	15	16	26	29	33
Working capital changes	(23)	(96)	(46)	(10)	(93)
Net cash from operations	30	(17)	54	89	38
Cash from investments					
Capital expenditure	(16)	(39)	(149)	(69)	(20)
Investments and others	-	(17)	2	-	-
Net cash from investments	(16)	(56)	(147)	(69)	(20)
Cash from financing					
Equity raised/(repaid)	-	-	188	-	-
Debt raised/(repaid)	(3)	28	40	(100)	(15)
Dividend (incl. tax)	(5)	(6)	(10)	(7)	(15)
Others (incl extraordinary)	(0)	23	(29)	-	0
Net cash from financing	(8)	45	189	(107)	(30)
Change in cash position	5	(27)	96	(87)	(12)
Closing cash	49	27	122	35	24

Half-yearly financials (standalone)

(₹ mn)	H1FY13	H2FY13	H1FY14
Operating income	627	717	620
Change (q-o-q)	-2%	14%	-13.5%
EBITDA	83	108	72
Change (q-o-q)	-5%	31%	-33.1%
EBITDA margin	13.2%	15.1%	11.7%
PAT	38	59	31
Adj PAT	38	59	31
Change (q-o-q)	-8%	57%	-48.2%
Adj PAT margin	6.1%	8.3%	5.0%
Adj EPS	11.1	34.6	9.0

Source: CRISIL Research



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- Retained by India's Employees' Provident Fund Organisation, the world's largest retirement scheme covering over 60 million individuals, for selecting fund managers and monitoring their performance

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- First research house to release exchange-commissioned equity research reports in India
- Assigned the first IPO grade in India

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