Ratings

CRISIL
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January 09, 2020

Mr. V. A. George
Managing Director
Thejo Engineering Limited
41, Cathedral Road,
VDS House,
Chennai - 600086
Tel:044 42221900

Dear Mr. V. A. George,

Re: Review of CRISIL Ratings on the bank facilities of Thejo Engineering Limited

All ratings assigned by CRISIL are kept under continuous surveillance and review.

Please find in the table below the ratings outstanding for the debt instruments/facilities of the company, and the rating actions by CRISIL on the ratings as on date.

Total Bank Loan Facilities Rated	**Rs.112.5 Crore (Enhanced from Rs.100 Crore)**
Long-Term Rating	**CRISIL BBB+/Positive (Outlook Revised from 'Stable' and Rating Reaffirmed)**
Short-Term Rating	**CRISIL A2 (Reaffirmed)**

(Bank-wise details as per Annexure 1)

As per our Rating Agreement, CRISIL would disseminate the ratings, along with the outlook, through its publications and other media, and keep the ratings, along with the outlook, under surveillance over the life of the instrument/facility. CRISIL reserves the right to withdraw, or revise the ratings, along with the outlook, at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL believes may have an impact on the ratings.

In the event of the company not availing the proposed facilities within a period of 180 days from the date of this letter, a fresh letter of revalidation from CRISIL will be necessary.

Should you require any clarifications, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Sameer Charania
Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

Rating Rationale

January 08, 2020 | Mumbai

Thejo Engineering Limited

Rating outlook revised to 'Positive'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.112.5 Crore (Enhanced from Rs.100 Crore)**
Long Term Rating	**CRISIL BBB+/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Short Term Rating	**CRISIL A2 (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its rating outlook on the long-term bank facilities of Thejo Engineering Limited (TEL) to '**Positive**' from 'Stable' while reaffirming the rating at '**CRISIL BBB+**' and has reaffirmed its 'CRISIL A2' rating on the short-term facilities.

The outlook revision reflects CRISIL's belief that TEL's business risk profile will improve further over the medium term driven by significant increase in revenue visibility in its subsidiary Thejo Australia Pty Ltd (Thejo Australia), which has bagged a large, multi-year contract with M/s Bridgestone Mining Solutions Australia Pty Ltd for belt cleaning, supply of spares, and conveyor maintenance services at the mine and port sites of Roy Hill Holdings Pty Ltd, Australia. Thejo Australia's revenue is expected to increase to Rs 90-130 crore per annum over the medium term, from around Rs 30 crore in fiscal 2019. This will more than offset the muted business environment in the domestic market, leading to a healthy 15% compound annual growth rate in consolidated revenue. Besides, operating profitability is expected to remain healthy at 13-15% resulting in higher cash generation.

The company plans modest capital expenditure (capex) of Rs 6-8 crore per annum, which along with incremental working capital requirement, will be comfortably funded through internal accrual. Gearing is thus expected to improve to less than 0.30 time over the medium term from 0.37 time as on March 31, 2019. Debt protection metrics are also expected to improve.

The ratings continue to reflect TEL's established position in the material handling segment, diverse revenue profile, and healthy financial risk profile. These strengths are partially offset by moderate scale of operations, susceptibility to cyclicality in end-user segments, and large working capital requirement.

Analytical Approach

To arrive at the ratings, CRISIL has combined the business and financial risk profiles of TEL and its subsidiaries: Thejo Hatcon Industrial Services Company, Saudi Arabia (Thejo Hatcon), Thejo Australia, Thejo Brasil Comercio E Servicos Ltda, Brazil (Thejo Brazil) and Thejo Engineering Latinoamerica SpA, Chile (Thejo Chile). This is because the entities, collectively referred to as the Thejo group, have strong operational linkages and fungible cash flow.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Established position and diversified revenue**

TEL is among a handful of recognised players in the organised services segment in India, and has a leading market position in the domestic conveyor services market. Furthermore, having started as a services company, it has gradually diversified its revenue by expanding into selling of related products. Currently, sales from the conveyor services segment contributes around 57% to total revenue, and the products segment accounts for the remaining 43%. The revenue diversity is further supported by export, both directly and through subsidiaries.

*** Healthy financial risk profile**

Financial risk profile is backed by healthy capital structure and adequate debt protection metrics. Gearing continues to improve, and was 0.37 time as on March 31, 2019, against 0.73 time as on March 31, 2017. This is due to improvement in networth as the subsidiaries in Saudi Arabia and Australia are contributing positively. Debt protection metrics are also adequate, with interest coverage and net cash accrual to total debt ratios more than 7 times and over 0.6 time, respectively, in fiscal 2019. Credit metrics are likely to improve given the expectation of improving cash generation and modest capex spend.

Weaknesses:

*** Moderate scale of operations and cyclicality in end user segments**

Although TEL is an established player in its niche product segments, it is still a moderate player, compared with larger players in the overall engineering segment.

Furthermore, the end users are present in cyclical industries, thereby exposing operations to the risk of sluggish demand during an economic slowdown, particularly if the clients defer capex or scale down production. Additionally, since the clients are large players, bargaining power and ability to collect receivables on time may be constrained in times of uncertain economic environment.

*** Working-capital-intensive operations**
working capital requirements are large, with high gross current assets of around 200 days as on March 31, 2019, primarily driven by debtors of around 110 days. Debtors are high given the company's presence in the engineering industry and exposure to large clients, including government-owned entities. However this is partly offset by availability of healthy credit from suppliers. Nevertheless, given then inherent working capital intensity, prudent management will remain critical.

Liquidity Adequate
TEL enjoys adequate liquidity driven by expected cash accrual of over Rs 25 crore per annum in fiscals 2020 and 2021. TEL also has access to fund-based limits of Rs 46 crore, utilised at an average of ~50% over the 12 months through October 2019. The company has annual long-term repayment obligation of around Rs 2-3 crore in fiscals 2020 and 2021, with capex of around Rs 6-8 annually. The company can fund its repayment obligation and capex requirements through internal accrual. Bank lines are expected to meet the incremental working capital requirement, which are assessed to be moderate.

Outlook: Positive
TEL's business risk profile is expected to improve over the medium term, benefiting from new orders, increased scale of operations and sustained healthy margins. Further, financial risk profile will remain healthy supported by higher cash generation and modest capex plans.

Ratings sensitivity factors:
Upward factors:
* Increase in revenues while maintaining profitability, leading to sustained annual accruals in excess of Rs 30 crore
* Sustenance of financial risk profile

Downward factors:
* Decrease in revenues or profitability resulting in accruals declining to less than Rs.20 crore
* Major debt funded capex leading to deterioration of gearing and debt protection metrics.

About the Company
Incorporated in 1986 and based in Chennai, TEL provides installation and operations and maintenance (O&M) services for conveyor belt systems. It also designs, manufactures, and supplies a wide variety of rubber and polyurethane products for belt cleaning, spillage control, enhanced flow of material, impact and abrasion protection, screening, and rubber and polyurethane linings. In India, TEL has five manufacturing units (all near Chennai), 11 branch offices, and 36 site offices in 10 states.

Outside India, TEL operates in Saudi Arabia, Australia, Brazil, and Chile through its subsidiaries. TEL holds 51% equity stake in Thejo Hatcon; with the balance 49% being held by Bahrain-based Hatcon Industrial Services Company. TEL holds 74% equity stake in Thejo Australia, with Japan-based Bridgestone Corporation (a global tyre and rubber company), through its subsidiary (Bridgestone Mining Solution Australia Pty Ltd, Australia), holding the balance 26% equity stake. In Thejo Brazil and Thejo Chile, TEL holds 99.99% and 99.80% stake, respectively. Thejo Brazil and Thejo Chile primarily sell bulk material handling products.

TEL is promoted by Mr K J Joseph and Mr Thomas John, who started the company to provide servicing operations to conveyor belt systems. The promoters' sons hold board and key management positions in the company. Since 2008, overall management is being led by a professional managing director, Mr V A George, who has experience of over 30 years in corporate and banking sectors.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	229	220
Profit after tax (PAT)	Rs crore	15	13
PAT margin	%	6.5	6
Adjusted debt/ adjusted networth	Times	0.37	0.48
Interest coverage	Times	7.20	5.02

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Bank Guarantee*	NA	NA	NA	17.5	CRISIL A2
NA	Cash Credit	NA	NA	NA	47.75	CRISIL BBB+/Positive
NA	Letter of Credit*	NA	NA	NA	12.5	CRISIL A2
NA	Standby letter of Credit	NA	NA	NA	13.0	CRISIL A2
NA	Long Term Loan	NA	NA	Oct-21	1.26	CRISIL BBB+/Positive

NA	Long Term Loan	NA	NA	Nov-21	0.57	CRISIL BBB+/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	3.0	CRISIL BBB+/Positive
NA	Proposed Short Term Bank Loan Facility#	NA	NA	NA	10	CRISIL A2
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	6.92	CRISIL A2

**Two-way Interchangeability between LC & BG*
#Proposed Standby Letter of Credit

Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Thejo Hatcon Industrial Services Company, Saudi Arabia	Full	Subsidiary and business linkages
Thejo Australia Pty Ltd, Australia	Full	Subsidiary and business linkages
Thejo Brasil Comercio E Servicos Ltda, Brazil	Full	Subsidiary and business linkages
Thejo Engineering Latinoamerica SpA, Chile	Full	Subsidiary and business linkages

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund-based Bank Facilities	LT/ST	69.50	CRISIL BBB+/Positive/ CRISIL A2					26-12-18	CRISIL BBB+/Stable/ CRISIL A2	10-08-17	CRISIL BBB/Stable	CRISIL BBB/Negative
								06-03-18	CRISIL BBB/Positive/ CRISIL A3+			
Non Fund-based Bank Facilities	LT/ST	43.00	CRISIL A2					26-12-18	CRISIL A2	10-08-17	CRISIL A3+	CRISIL A3+
								06-03-18	CRISIL A3+			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Bank Guarantee*	**17.5**	**CRISIL A2**	**Bank Guarantee***	**17.5**	**CRISIL A2**
Cash Credit	**47.75**	**CRISIL BBB+/Positive**	**Cash Credit**	**47.75**	**CRISIL BBB+/Stable**
Letter of Credit*	**12.5**	**CRISIL A2**	**Letter of Credit***	**12.5**	**CRISIL A2**
Long Term Loan	**1.83**	**CRISIL BBB+/Positive**	**Long Term Loan**	**3.47**	**CRISIL BBB+/Stable**
Proposed Long Term Bank Loan Facility	**3**	**CRISIL BBB+/Positive**	**Proposed Long Term Bank Loan Facility**	**3**	**CRISIL BBB+/Stable**
Proposed Short Term Bank Loan Facility#	**10**	**CRISIL A2**	**Proposed Short Term Bank Loan Facility**	**2.78**	**CRISIL A2**
Proposed Short Term Bank Loan Facility	**6.92**	**CRISIL A2**	**Standby Letter of Credit**	**13**	**CRISIL A2**
Standby Letter of Credit	**13**	**CRISIL A2**	**--**	**0**	**--**
Total	**112.5**	**--**	**Total**	**100**	**--**

**Two-way interchangeability between LC & BG*
#Proposed Standby Letter of Credit

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Engineering Sector
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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