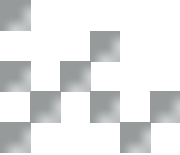


CRISIL SME IER IndependentEquityResearch

Thejo Engineering Ltd

H1 FY13 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

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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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SME Fundamental Grade 5/5 (Excellent fundamentals)

SME Valuation Grade 3/5 (CMP is aligned)

Thejo Engineering Ltd's (Thejo's) H1FY13 results were in line with CRISIL Research's expectations. Net sales witnessed strong y-o-y growth driven by the services business. Export sales declined y-o-y because the company had executed a one-off large order in FY12. While profitability for H1FY13 was higher than our expectation, initial costs incurred for Australian subsidiary and commissioning of new facilities will put pressure on profitability. Thejo's capex plans continue to be on track and we expect the same to be completed by March 2013. We believe the benefits of capacity expansion and investments in its Australian subsidiary are likely to lead to faster revenue growth in FY14. We maintain SME Fundamental Grade of **5/5** for Thejo, indicating that its fundamentals are **excellent** relative to other SMEs in India.

Services business continues to drive strong growth

Thejo's services business (mainly related to operation and maintenance of conveyor belts) increased 37% y-o-y. The unexecuted order book in services business comprised Rs 460 mn, which provides strong revenue visibility over the next three to six months. The products business (including exports) reported 5% y-o-y growth in volumes and 7% y-o-y growth in revenues. Exports declined 14% y-o-y as the company had executed a one-time large order for its client in Ghana in FY12. The management has indicated that it has received an order worth Rs 50 mn for ball mill lining replacement from the same client; the order is to be executed over H2FY13. Net sales increased 19% y-o-y to Rs 627 mn.

EBITDA margin expand due to lower trading sales and decline in raw material prices

EBITDA margin increased 228 bps y-o-y to 13.2% on account of y-o-y decline in raw material prices (natural and synthetic rubber) and lower sale of low-margin traded products. We expect the margin to be under pressure in H2FY13 owing to initial costs incurred for Australian subsidiary and commissioning of new facilities.

Capex plans on track

The debottlenecking of its existing facility and new infrastructure for rubber lining activities continue to be on track and is expected to be completed by March 2013. The setting up of the new polyurethane plant is complete and the company has purchased 25% of its required equipment for the R&D facility. Thejo plans to invest Rs 64.2 mn over FY13-14 in its Australian subsidiary Thejo Australia Pty Ltd, of which 50% is complete. We expect the benefits of these capex plans to accrue FY14 onwards.

Valuations: We maintain fair value 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.

KEY FORECAST - CONSOLIDATED

(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	56.4	44.4	65.4
EPS growth (%)	69.8	68.7	74.5	(21.3)	47.2
Dividend yield (%)	0.7	0.9	1.0	0.5	1.4
RoCE (%)	19.6	23.8	31.6	23.4	23.9
RoE (%)	18.2	24.5	31.1	18.8	18.7
PE (x)	20.6	12.2	7.0	8.9	6.0
P/BV (x)	3.4	2.7	1.8	1.2	1.0
EV/EBITDA (x)	8.3	6.2	4.4	4.9	3.7

CMP: Current market price

Source: Company, CRISIL Research estimates

November 09, 2012

Fair Value Rs 402

CMP Rs 395

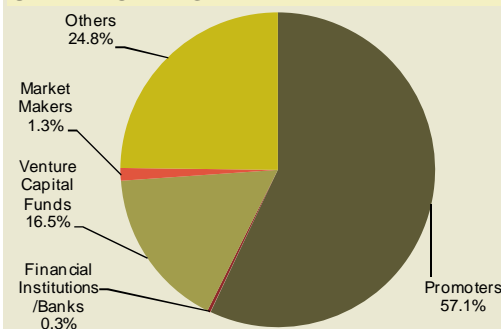
SME CFV MATRIX

	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	5759
NSE EMERGE ticker	THEJO
Face value (Rs per share)	10
Shares outstanding (mn)	1.7
Market cap (Rs mn)/(US\$ mn)	666/12
Enterprise value (Rs mn)/(US\$ mn)	836/15
Free float (%)	43.0
Avg daily volumes (30-days)	860
Avg daily value (30-days) (Rs mn)	0.33

SHAREHOLDING PATTERN



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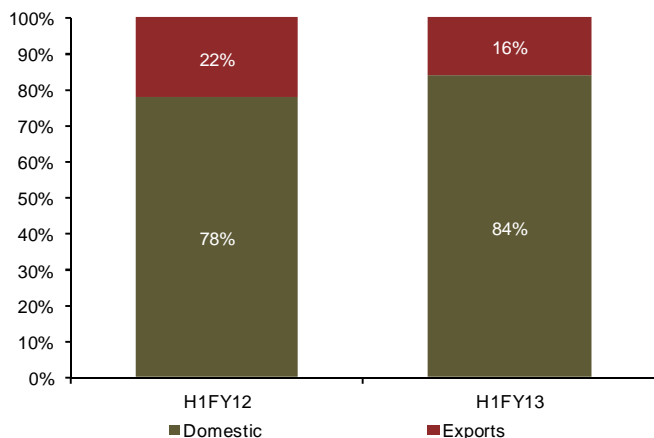
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H1FY13 Standalone Results Summary

	H1FY13	H2FY12	H1FY12	h-o-h (%)	y-o-y (%)
Net sales	620	631	523	(2)	19
Other operating income	6	9	8	(30)	(15)
Operating income	627	640	530	(2)	18
Raw material consumption	177	199	208	(11)	(15)
as % of operating income	28.2%	31.0%	39.2%	-280bps	-1093bps
Employee costs	205	185	134	11	53
Other expenditure	163	170	131	(4)	24
EBITDA	83	87	58	(5)	43
EBITDA margin	13.2%	13.6%	10.9%	-41bps	228bps
Depreciation	9	9	7	5	23
EBIT	73	78	50	(6)	46
Interest	21	21	16	1	37
Other income	4	5	3	(24)	22
Extra-ordinary Income/ (Expenses)	-	28	-		
PBT	56	91	38	(38)	47
Tax	18	26	12	(31)	45
PAT	38	64	26	(41)	49
Adjusted PAT	38	41	26	(8)	49
Adjusted PAT margin	6.1%	6.5%	4.8%	-42bps	124bps
No. of equity shares (mn)	1.7	1.2	1.2	42	42
Adjusted EPS	22.5	35.0	21.6	(36)	4

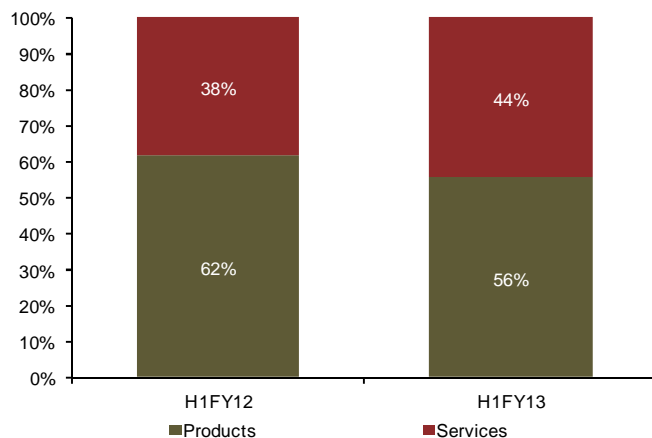
Source: Company, CRISIL Research

Contribution of export to revenues declined y-o-y



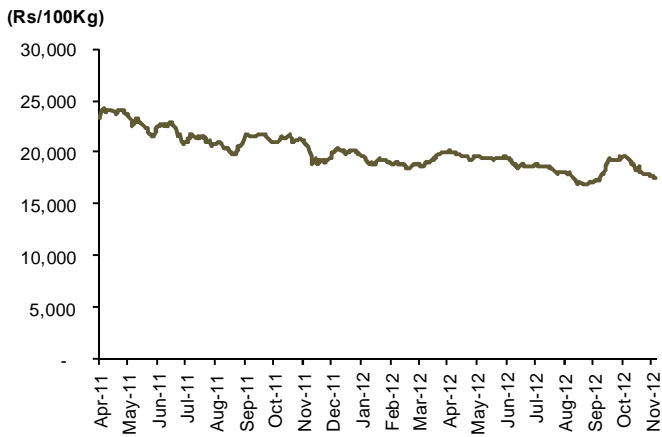
Source: Company, CRISIL Research

Contribution of services to revenues increased y-o-y



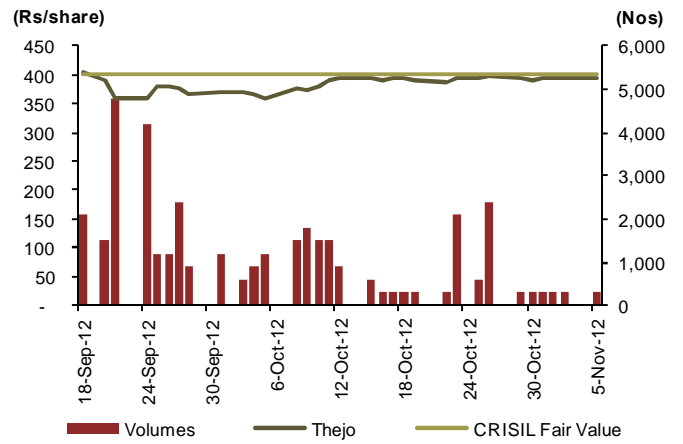
Source: Company, CRISIL Research

Natural rubber prices on a declining trend



Source: NCDEX, CRISIL Research

Fair value movement since initiation



Source: NSE, CRISIL Research



Valuation

Grade: 3/5

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 FY13E and 6.1x FY14E and P/B multiples of 1.3x FY13E and 1.1x FY14E. At the current market price of Rs 395, 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

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-2012	Initiating Coverage	5/5	Rs 402	3/5	Rs 373
9-Nov-2012	H1FY13 Result Update	5/5	Rs 402	3/5	Rs 395

Annexure: Financials

Income statement						Balance Sheet					
(Rs m n)	FY10	FY11	FY12	FY13E	FY14E	(Rs m n)	FY10	FY11	FY12	FY13E	FY14E
Operating income	620	899	1,096	1,326	1,765	Liabilities					
EBITDA	75	99	151	170	225	Equity share capital	12	12	12	17	17
EBITDA margin	12.1%	11.0%	13.7%	12.8%	12.8%	Reserves	128	161	246	522	621
Depreciation	15	15	16	24	32	Minorities	-	-	-	-	-
EBIT	60	84	134	145	194	Net worth	139	173	257	539	638
Interest	26	28	37	36	34	Convertible debt	-	-	-	-	-
Operating PBT	34	56	98	110	160	Other debt	199	196	224	224	224
Other income	1	1	2	2	4	Total debt	199	196	224	224	224
Exceptional inc/(exp)	-	-	28	-	-	Deferred tax liability (net)	2	2	3	3	3
PBT	35	58	128	112	164	Total liabilities	341	371	484	766	865
Tax provision	12	19	38	37	54	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	89	88	107	268	257
PAT (Reported)	23	38	90	75	110	Capital WIP	-	3	6	6	6
Less: Exceptionals	-	-	23	-	-	Total fixed assets	89	91	113	274	262
Adjusted PAT	23	38	67	75	110	Investments	3	3	20	20	20
Ratios						Current assets					
	FY10	FY11	FY12	FY13E	FY14E	Inventory	64	81	116	145	193
Growth						Sundry debtors	207	287	332	414	538
Operating income (%)	9.2	44.9	22.0	20.9	33.2	Loans and advances	85	110	189	212	265
EBITDA (%)	18.4	32.2	52.2	12.6	32.9	Cash & bank balance	43	49	27	55	50
Adj PAT (%)	85.5	68.7	74.5	12.0	47.2	Marketable securities	-	-	-	-	-
Adj EPS (%)	69.8	68.7	74.5	(21.3)	47.2	Total current assets	399	527	664	826	1,046
Profitability						Total current liabilities	151	250	313	355	464
EBITDA margin (%)	12.1	11.0	13.7	12.8	12.8	Net current assets	249	277	351	471	582
Adj PAT Margin (%)	3.7	4.3	6.1	5.6	6.2	Intangibles/Misc. expenditure	0	0	0	0	0
RoE (%)	18.2	24.5	31.1	18.8	18.7	Total assets	341	371	484	766	865
RoCE (%)	19.6	23.8	31.6	23.4	23.9	Cash flow					
RoIC (%)	18.2	22.1	26.9	20.1	20.0	(Rs m n)	FY10	FY11	FY12	FY13E	FY14E
Valuations						Pre-tax profit	35	58	100	112	164
Price-earnings (x)	20.6	12.2	7.0	8.9	6.0	Total tax paid	(12)	(20)	(37)	(37)	(54)
Price-book (x)	3.4	2.7	1.8	1.2	1.0	Depreciation	15	15	16	24	32
EV/EBITDA (x)	8.3	6.2	4.4	4.9	3.7	Working capital changes	(43)	(23)	(96)	(92)	(116)
EV/Sales (x)	1.0	0.7	0.6	0.6	0.5	Net cash from operations	(5)	30	(17)	7	26
Dividend payout ratio (%)	14.4	10.8	5.0	4.3	8.5	Cash from investments					
Dividend yield (%)	0.7	0.9	1.0	0.5	1.4	Capital expenditure	(16)	(16)	(39)	(185)	(20)
B/S ratios						Investments and others	(3)	-	(17)	-	-
Inventory days	48	41	49	50	50	Net cash from investments	(19)	(16)	(56)	(185)	(20)
Creditors days	65	77	78	77	75	Cash from financing					
Debtor days	115	107	102	102	100	Equity raised/(repaid)	10	-	-	210	-
Working capital days	114	85	100	103	99	Debt raised/(repaid)	37	(3)	28	-	-
Gross asset turnover (x)	3.4	4.5	5.0	4.0	4.1	Dividend (incl. tax)	(4)	(5)	(6)	(4)	(11)
Net asset turnover (x)	7.3	10.2	11.2	7.1	6.7	Others (incl extraordinary)	(0)	(0)	23	-	-
Sales/operating assets (x)	7.0	10.0	10.8	6.8	6.6	Net cash from financing	43	(8)	45	206	(11)
Current ratio (x)	2.7	2.1	2.1	2.3	2.3	Change in cash position	19	5	(27)	28	(5)
Debt-equity (x)	1.4	1.1	0.9	0.4	0.4	Closing cash	43	49	27	55	50
Net debt/equity (x)	1.1	0.9	0.8	0.3	0.3	Half-yearly financials					
Interest coverage	2.3	3.0	3.7	4.1	5.8	(Rs m n)			H2FY12	H1FY13	
Per share						Operating income			640	627	
Adj EPS (Rs)	19.2	32.3	56.4	44.4	65.4	Change (q-o-q)				-2.1%	
CEPS	31.7	44.8	70.0	58.7	84.1	EBITDA			87	83	
Book value	117.7	146.0	217.3	319.5	378.3	Change (q-o-q)				-5.0%	
Dividend (Rs)	2.8	3.5	4.0	1.9	5.6	EBITDA margin			13.6%	13.2%	
Actual o/s shares (mn)	1.2	1.2	1.2	1.7	1.7	PAT			64	38	
						Adj PAT			41	38	
						Change (q-o-q)				-8.4%	
						Adj PAT margin			6.5%	6.1%	
						Adj EPS			35.0	22.5	

Source: CRISIL Research

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