Research

CRISIL
An S&P Global Company

CRISIL SME IER

Independent Equity Research

Enhancing investment decisions

Thejo Engineering Ltd

Detailed report

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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Thejo Engineering Ltd

September 27, 2016

International operations on strong footing; revival in end-user industries to boost domestic revenue

SME Fundamental Grade: 5/5 (Excellent fundamentals)

SME Valuation Grade: 4/5 (CMP has upside) **Fair Value: ₹223** **CMP: ₹190**

After a period of steady growth over the past five years, Thejo Engineering Ltd's (Thejo's) revenue declined 6% in FY16. Slowdown in domestic end-user industries - steel, power and iron ore mining - resulted in 12% decline in domestic product revenue (16% of gross sales) and 6% decline in domestic services revenue (53% of gross sales). On the other hand, international operations (22% of gross sales) grew 32.4%, driven by Australian operations. Revival in capital expenditure (capex), utilisation in end-user industries and mining production in Australia are expected to drive Thejo's future growth. Though intermittent volatility in cash flows is likely, established customer relationships and focus on innovation place the company comfortably to grow in the long term. We maintain our SME fundamental grade of **5/5**.

Revival in core industries and new services to drive domestic operations
Pick-up in utilisation in the steel industry, rise in domestic production of coal and new capacity addition in ports, power and cement sectors are expected to trigger growth of domestic material handling equipment (MHE) players such as Thejo. The company has widened its offerings by foraying into operations and maintenance, and safety consultancy services, which is expected augment services revenue. We forecast Thejo's domestic product and services revenue to grow at 20% CAGR over FY16-18E.

International operations on strong footing, with established position in Australia
Focus on diversifying the client base and partnership with Bridgestone (one of the largest conveyor belt players) helped Australian subsidiary's revenue increase 23% to ₹177 mn. Going forward, low cost producers such as Australia and Brazil are likely to gain market share in global exports. With a strong foothold in these region, Thejo is placed well to tap the opportunity. We expect its overseas revenue, including exports to increase 29% over FY16-18E.

Ramp-up in plant utilisation and higher services revenue to expand margin
Increase in subsidiaries' revenue, and higher plant and service personnel utilisation are expected to expand Thejo's operating margin. However, steep rise in natural rubber (50% of its raw material costs) prices during Q1FY17 – up 16% from FY16 levels – is likely to limit margin expansion in FY17, as input costs are passed on with a lag. We forecast EBTIDA margin to improve marginally to 8.2% in FY17 and to 9.1% in FY18.

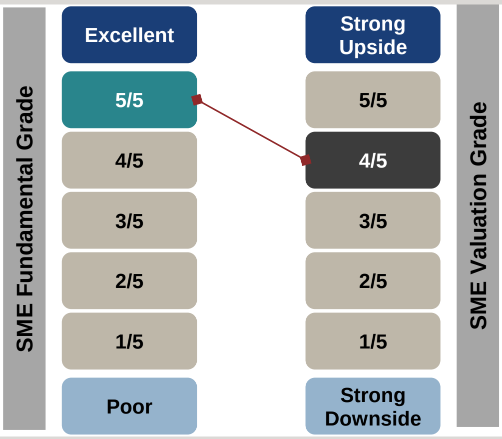
Estimates rolled forward by a year, fair value raised to ₹223
We have rolled forward our estimates by a year to FY18. We lowered our FY17 revenue and earnings estimates factoring in slower-than-expected pick-up in the services business. However, we have increased our long-term margin estimates for the company given the expected turnaround in its overseas operations. Consequently, we increase our discounted cash flow (DCF) based fair value to ₹223 from ₹194. At the current market price of ₹190, our SME valuation grade is **4/5**.

KEY FORECAST

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Operating income	1,471	1,703	1,603	1,904	2,271
EBITDA	143	113	130	157	208
Adj net income	16	1	(7)	22	47
Adj EPS (₹)	4.6	0.2	(2.1)	6.4	13.7
EPS growth (%)	(79.9)	(94.9)	NM	NM	112.4
Dividend yield (%)	1.8	1.8	1.8	0.7	1.5
RoCE (%)	13.5	5.9	8.2	10.4	14.1
RoE (%)	3.1	0.2	(1.4)	4.4	8.8
PE (x)	41.5	NM	NM	29.5	13.9
P/BV (x)	1.3	1.3	1.3	1.3	1.2
EV/EBITDA (x)	6.3	8.3	7.7	6.5	5.1

 # Abridged financials; NM: Not meaningful; CMP: Current market price;
Source: Company, CRISIL Research estimates

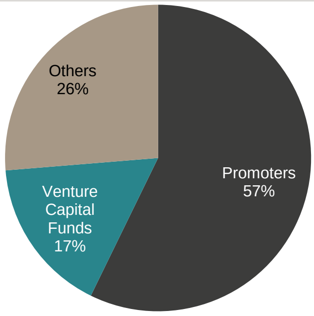
SME CFV MATRIX



KEY STOCK STATISTICS

NIFTY	8723
NSE EMERGE ticker	THEJO
Face value (₹ per share)	10
Shares outstanding (mn)	3.4
Market cap (₹ mn)/(US$ mn)	652/10
Enterprise value (₹ mn)/(US$ mn)	908/14
Free float (%)	43%

SHAREHOLDING PATTERN



For detailed initiating coverage report please visit: www.crisil.com
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Table 1: Business environment

Parameter	Manufacturing	Services	Trading
Revenue contribution (FY16)	26%	66%	8%
Revenue contribution (FY18E)	26%	73%	1%
Revenue CAGR (FY13-16)	-8%	12%	10%
Revenue CAGR (FY16-18E)	18%	21%	-41%
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, pulley lagging and corrosion protection applications, plant operation and maintenance related service	Management indicated they will wind down the natural rubber trading business
Geographic presence	India, Australia, Brazil, Ghana, Saudi Arabia	India, Australia, Saudi Arabia, Chile, Brazil	India
Market position	Highly fragmented industry with several small and regional players	Thejo has ~70% share in the outsourced conveyor belt services	Competes with cooperatives
Demand drivers	• Revival in the capex cycle, particularly for industries such as steel, mining, port, power and cement • Pick-up in mining production in Australia and Brazil		
Key risks	• Prolonged slowdown in end-user industries • Inability to pass on increase in raw material prices • Volatility in currency as the company does not hedge forex exposure		

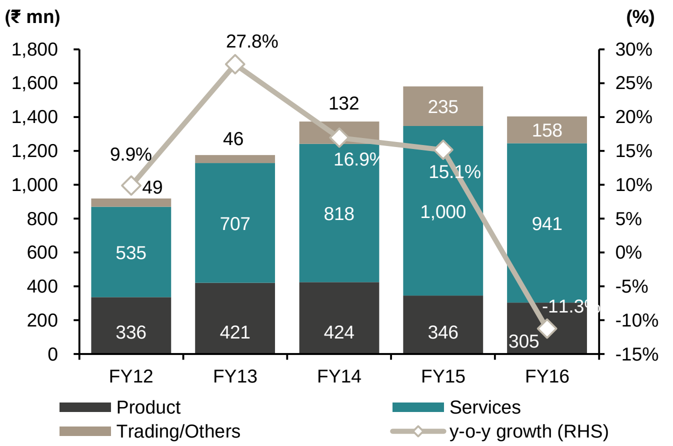
Source: Company, CRISIL Research

Grading Rationale

Industry-wide slowdown impacted domestic revenue in FY16

After steady growth over FY11-15, Thejo's domestic revenue declined 11.3% in FY16 (vs 17% CAGR over FY11-15) to ₹1,403 mn, reflecting slowdown in the Indian MHE industry. The product segment's revenue (22% of domestic sales) declined 12% and the services segment's revenue (67%) fell 6%, primarily owing to a slowdown in capex in end-user industries such as steel, iron ore mining and power (collectively constitute ~60% of revenue). Shutdown of few iron ore pellet plants in FY16, owing to a steep decline in realisations, worsened the situation. Additionally, Thejo's rubber trading revenue (9% of overall sales) dropped 33%, impacting overall revenue growth.

Fig 1: Standalone revenue impacted by slowdown in industry



Source: Company, CRISIL Research

Table 2: Thejo's major competitors showed similar slide in revenue

Company	Revenue (₹ mn)			Revenue growth (%)		
	FY14	FY15	FY16	FY14	FY15	FY16
Tega Industries	6,832	6,164	NA	5%	-10%	NA
International Conveyors	1,318	958	838	14%	-27%	-13%
Somi Conveyor Beltings	654	747	575	-17%	14%	-23%
Thejo's domestic	**1,374**	**1,581**	**1,403**	**17%**	**15%**	**-11%**

Source: Company, CRISIL Research

Expect pick-up in FY17 with revival in core industries and entry into new services

Revival in end-user segments to aid domestic product revenue in FY17

Demand for Thejo's products is linked to fresh capex (drives new orders) as well as ramp-up in utilisation (drives new and replacement demand) in end-user industries. Expected increase in utilisation in the steel industry, rise in domestic production of coal and new capacity addition by private power producers and cement players are expected to trigger growth of domestic MHE players such as Thejo. We forecast domestic product revenue to grow at a two-year CAGR of 16% to ₹590 mn in FY18.

Table 3: Sector exposure

Sector exposure	Projection FY17-21
Iron & steel	● Increased offtake from end-user segments and implementation of safeguards by the government are likely to improve utilisation rates in the domestic steel industry to 90% in FY21 from 77% in FY16
Power	● Over the next five years (FY16-20) around 60 GW of capacities are likely to be added, of which around 88% will be coal-based
Coal	● Over FY16-20, domestic production is anticipated to grow at 9% CAGR to 866 MT against 3% CAGR in the past five years

Source: CRISIL Research

Entry into operations and maintenance, and safety consultancy to augment services revenue

Recently, the company expanded its offerings in the industrial services space by foraying into the operations and maintenance (O&M) segment. Leveraging its existing relationships, the company won an O&M services contract from a large steel player for three years. A client base across different industries is likely to augment revenue from existing engagements.

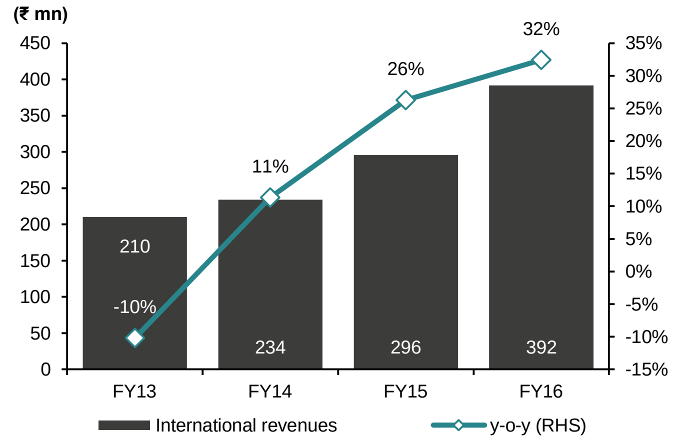
Management is also planning to leverage its experience and know-how to enter the industrial safety consultancy services segment targeting small and medium enterprises (SMEs). While this segment has low entry barriers, we expect Thejo to have a first-mover advantage since the industry is largely unorganised. However, it is unlikely to contribute substantially to revenue in the near term.

Further, revival in end-user segments is expected to drive demand for Thejo’s services business as well. We forecast the services segment to grow at 18% CAGR over FY16-18E to ₹1,300 mn.

Australian operations on a strong footing; others to improve in FY17

The company’s focus on diversifying its client base and partnership with Bridgestone (one of the largest mining product manufacturers) has yielded results as revenue from the Australian subsidiary more than doubled to ₹177 mn over FY14-16, despite slowdown in mining output in the region. However, on the other hand, revenue from Saudi Arabian operations declined 15% owing to slowdown in mining investments in the country. Subsidiaries in Brazil and Chile are yet to meaningfully contribute to revenue, despite the company’s efforts to increase presence in there.

Fig 2: International operations on a strong footing



Source: Company, CRISIL Research

Table 4: Growth led by Australian operations

(₹ mn)	FY13	FY14	FY15	FY16
Standalone				
Product exports	159	115	103	166
Subsidiaries				
Australia	21	81	144	177
Saudi Arabia	31	38	49	42
Brazil	-	-	-	3
Chile	-	-	-	5
Total	**210**	**234**	**296**	**392**

Source: Company, CRISIL Research

With most international commodity prices expected to remain soft over the next couple of years, high cost producers are expected to face closures. In this scenario, low cost producers such as Australia and Brazil are likely to gain market share in global exports at the expense of Africa and other South American players. The Department of Industry - Australia forecasts productions across Australian mines to inch up from ~4% over the CY2016-17. With a strong foothold in Australia and direct presence in Brazil, the company is well placed to tap this opportunity. Further management expect its Saudi subsidiary to post higher revenue on the back of new contract wins during April-May 2016. We expect Thejo's overseas revenue, including exports, to jump 31% over FY16-18E.

Diversified customer base and focus on innovation are competitive advantages

In the product business, Thejo faces stiff competition from players such as Tega Industries Ltd, Oriental Rubber Industries Ltd and International Conveyors. However, with its focus on product quality and proven experience of working with large clients (JSW Steel, NTPC and Coal India), the company is well placed to retain existing client relationships and reap the benefits of long-term industry growth.

Table 5: Thejo's clientele

Industry	Clients
Mining	Coal India, NMDC, MOIL
Steel	SAIL, Tata Steel, JSW Steel, RINL - Vizag, JSPL
Power	NTPC, Reliance Energy, Tata Power
Fertilisers	RCF, IFFCO
Ports/ Others	Adani group, Essar group, Hindalco, RIL , Tata Chemicals, Hindustan Zinc, Nirma

Source: Company, CRISIL Research

The company's research and development (R&D) centre was recently re-certified by the Department of Scientific and Industrial Research (DSIR). The centre is responsible for developing new and innovative products as well as bringing continuous improvement in existing products. We believe this is a key enabling factor for the company, given high competition in the industry.

Key takeaways from visit to the R&D centre and plant

- The R&D centre is equipped with the latest equipment to assess the quality of manufactured products and undertake production tests to develop new products. Further, they are currently working on developing patented products.
- With the commissioning of "New Finished Goods Stores" and "New Raw Materials Stores", Thejo is planning to manufacture and store standard products, which will reduce lead time to customers.

Table 6: Comparison of Thejo with players in conveyor belt industry

Parameters	Thejo Engineering	Tega Industries	International Conveyors	Somi Conveyor Beltings	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	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	Manufactures corrosion resistant and abrasion resistant linings for chemical, fertiliser and other process industries, in India and abroad
Market capitalisation (₹ mn)	680	Unlisted	1,360	471	Unlisted
Revenue (₹ mn)	1,603 (FY16)	6,164 (FY15)	838 (FY16)	575 (FY16)	303 (FY15)
EBITDA margin	8%	13%	-2%	21%	19%
PAT margin	-1%	-2%	-5%	4%	11%

Intermittent revenue volatility to remain

The company cater to clients in cyclical industries such as cement, mining, port, power and steel with its revenue inexplicably linked to cyclicality in these sectors. As witnessed during FY14-16, slowdown in end-user sectors, mainly steel and power, impacted the company's growth; revenue increased at only 4.4% CAGR over FY14-16 against 15.7% over FY12-14. Fluctuating revenue would impact profitability and cash flows, given the high operating leverage.

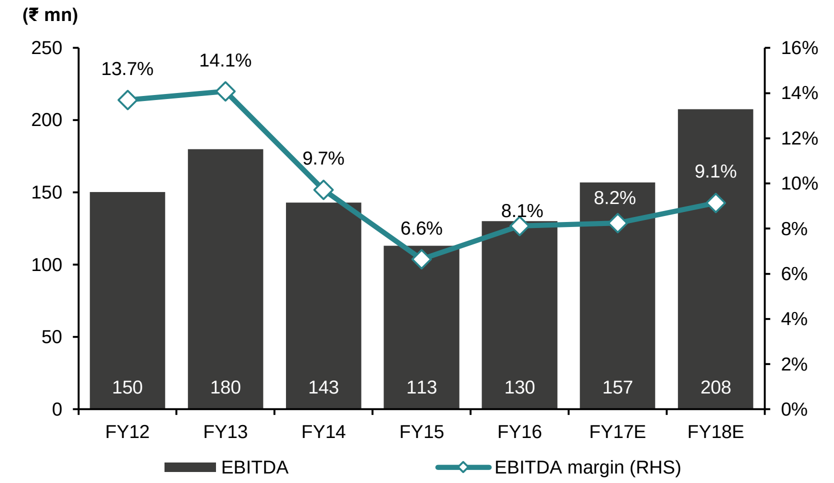
Margin expansion on cards; expect 100 bps increase over FY16-18E

We expect the following factors to drive Thejo's operating margin going forward:

- Ramp-up in subsidiaries' revenue – Expected revenue growth in the Australian and Brazilian operations on the back of revival in mining, and new order wins in Saudi Arabia are likely to narrow overseas subsidiaries' operating losses.
- Increase in production volumes and better utilisation of service personnel – Gradual recovery in core sectors - coal, steel and iron ore mining - is likely to translate into higher products volumes for Thejo. Also, foray into O&M and safety consultancy services should ensure better utilisation of personnel (as of FY16, utilisation of plant is ~30% while that of service personnel is ~65%).
- Management indicated that it has consciously reduced dependence on the low-margin trading business in FY16. Rubber trading revenue declined ~33% in FY16. We expect Thejo to exit the segment over the next three years and forecast share of trading revenue to drop to 4% in FY18 from the 9% in FY16.

However, a steep rise in rubber prices (up 32% y-o-y) during June-July 2016 is likely to limit operating margin expansion in the near term. We expect EBITDA margin to marginally improve to 8.2% in FY17, as input costs are passed on with a lag. Subsequently, aided by the aforementioned factors we forecast Thejo's margin to expand to 9.1% by FY18.

Fig 3: EBITDA margin to improve over FY16-18E

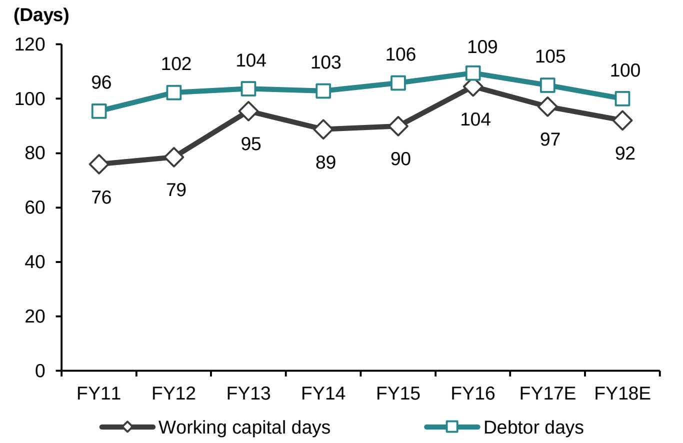


Source: Company, CRISIL Research

Working capital cycle to remain stretched

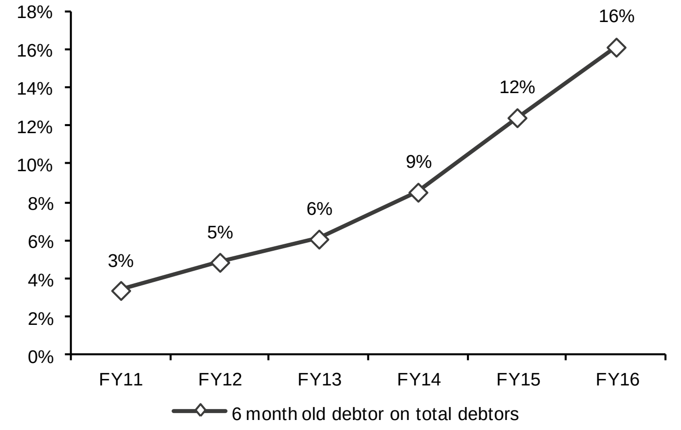
The company's working capital cycle is structurally high leading to higher requirement for short-term funding. This is primarily owing to high debtors days - median of 104 days over the past five years. In FY16, the company's debtor days rose to 109 days with more than six-month-old debtors at 16% (compare to 9% in FY14), as some of its large clients held back payments. While it has been able to subsequently recover payments, operating cash flows have been impacted. We believe it will continue to have a stretched working capital cycle, with debtor days over 100 in the near term.

Fig 4: Working capital cycle to remain stretched



Source: Company, CRISIL Research

Fig 5: Debtors over six months rose sharply over FY14-16



Source: Company, CRISIL Research

Key Risks

Prolonged slowdown in end-user industries

The company's clients belong to the mining, steel, power and port industries. Resultantly, its revenue is linked to the cyclicality in the end-user industries. A prolonged slowdown is likely to have an adverse impact on its revenue.

Inability to pass on rise in raw material prices

Natural rubber prices (~50% of total material costs) have been highly volatile in the past two quarters. With the company's limited ability to pass on input prices, profitability may be adversely impacted.

Fluctuations in currency

Thejo currently does not hedge its foreign exchange exposure; hence, it is susceptible to currency volatility risk. In case of rupee appreciation, the company's international revenue may get impacted adversely.

Management Overview

Professional and experienced management

The management team is led by V. A. George, who has been associated with the company since 2007. Mr George is an engineering and management graduate with over 20 years of experience at senior management positions. He is supported by Mr Manoj Joseph (Mr K. J. Joseph's son) and Mr Rajesh John (Mr Thomas John's son) as Director-Marketing and Director-Sales, respectively, who have been associated with the company for over 10 years. The long-standing association of top management members with the company fosters continuity and depth of management and institutionalised knowledge. Based on our interactions, we believe the company has a professional and experienced second line of management

Management successfully managed to foray into new segments and geographies

Thejo's management has been able to diversify its product and service offerings on the back of strong focus on R&D and innovation. This has helped the company maintain competitive edge in the material handling industry. Further, management has been successful in ramping up international revenue, with Australian operations contributing majorly to growth. However, its ability to ramp up operations in Brazil and Chile is a monitorable given slowdown in mining in these countries.

Board composition - complying with listing norms

Thejo's board has 11 members, with six independent directors. The board brings to the table sector expertise relevant to the business and diversified technical, business and administrative experience.

Independent directors of repute

The well-rounded board includes independent directors from various fields such as corporate affairs, finance, public service, entrepreneurship, technology, etc. Independent directors who have vast experience in their respective domains are Mr N. Ganga Ram, Mr V.K. Srivastava, Mr A. Satyaseelan, Mr M.P. Vijay Kumar, Dr. C.N. Ramchand and Mrs Sujatha Jayarajan.

Satisfactory disclosure levels

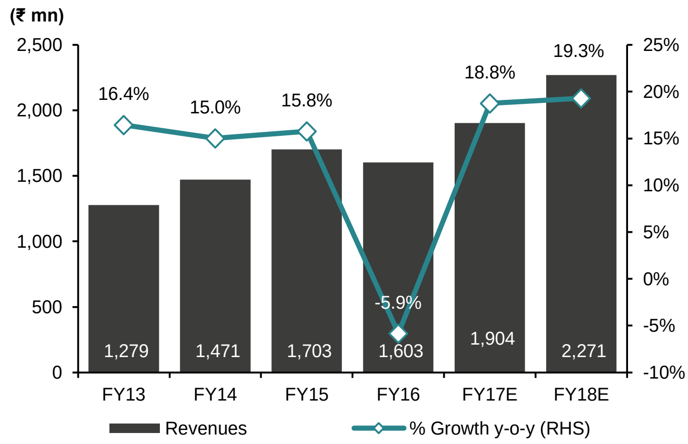
In our opinion, disclosure levels are satisfactory based on publicly available information such as half yearly results, annual reports, content on website and other public documents.

Financial Outlook

Revenue to grow at 19% CAGR over FY16-18E

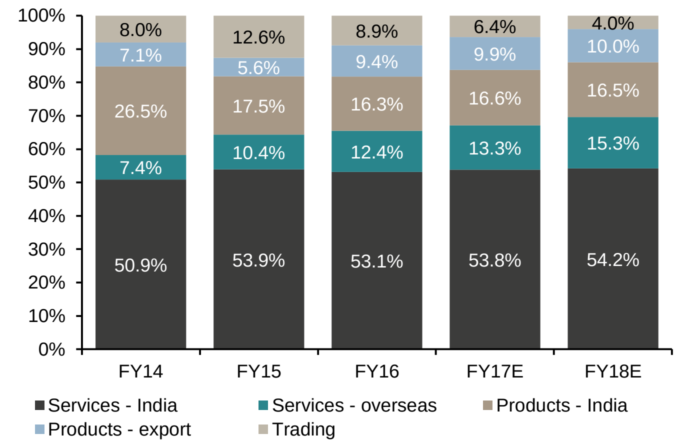
CRISIL Research expects Thejo's consolidated revenue to increase to ₹2.3 bn in FY18 at a three-year CAGR of 19%. Services revenue is expected to grow at 23% CAGR over this period driven by growth in domestic services and, the Australian and Saudi Arabian subsidiaries. Products are expected to grow at 21% CAGR over the same period driven by revival in demand from end-user industries and higher exports. As guided by management, we expect the company to wind down its trading operations in natural rubber and, resultantly, forecast share of trading revenue to decline to 4% by FY18.

Fig 6: Revenue to pick up from FY17 onwards



Source: Company, CRISIL Research

Fig 7: Overseas service business expected to grow faster

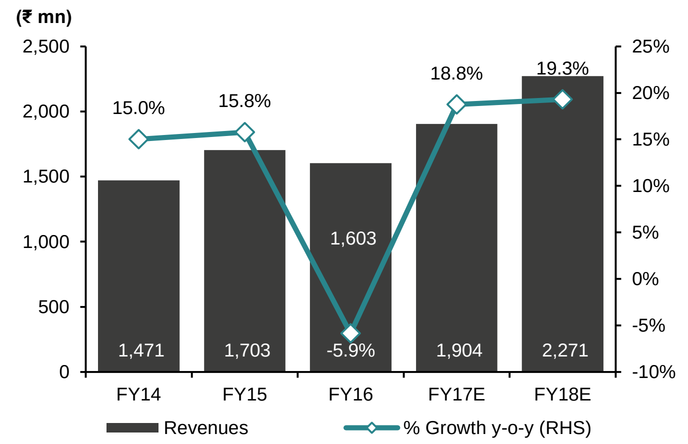


Source: Company, CRISIL Research

Margin contracted significantly

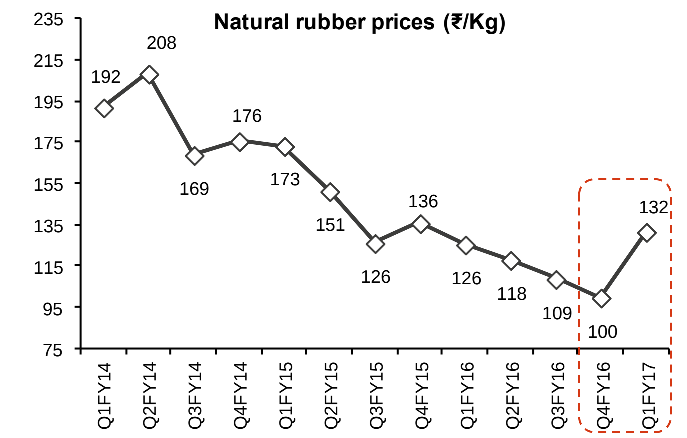
We expect EBITDA margin to marginally improve to 8.2% in FY17 over expectations of a 15-18% rise in natural rubber prices from FY16 levels (average ₹113/kg) and its limited ability to pass on the price rise. With pick-up in subsidiaries' revenue, and higher utilisation of plant and personnel, we expect EBTIDA margin to expand to 9.1% by FY18. Also, fall in share of the low-margin trading business should aid margin expansion.

Fig 8: Margin to expand to 9.1% by FY18



Source: Company, CRISIL Research

Fig 9: Natural rubber prices to remain high in FY17

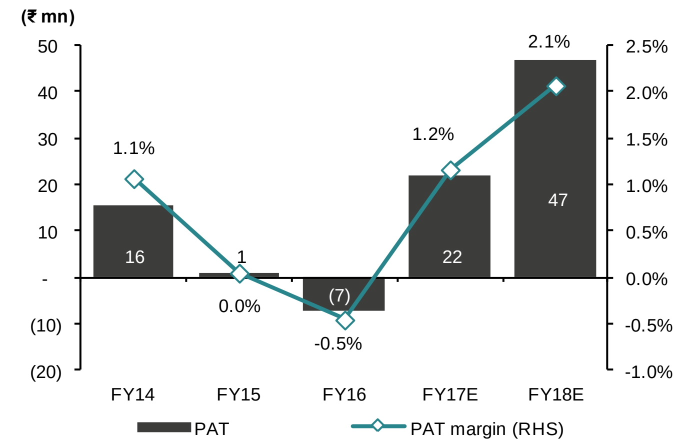


Source: Industry, CRISIL Research

Expect adjusted PAT of ₹47 mn in FY18; Return ratios to improve

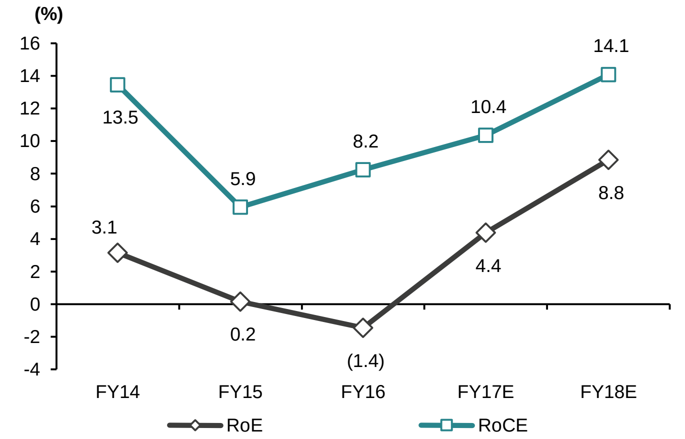
Aided by increase in revenue and EBITDA, we forecast adjusted PAT of ₹47 mn in FY18 against a net loss of ₹7 mn in FY16. We expect return ratios to improve: RoCE to 14.1% in FY18 from 8.8% in FY16, and RoE to 8.8% in FY18 from 4.4% in FY16.

Fig 10: PAT margin to expand



Source: Company, CRISIL Research

Fig 11: RoE expected to improve



Source: Company, CRISIL Research

Earnings Estimates Revision

		FY17E			FY18E
Particulars	**Unit**	**Old**	**New**	**% change**	**Introduced**
Revenue	₹ mn	2,244	1,904	-15%	2,271
EBITDA	₹ mn	190	157	-18%	208
EBITDA margin	%	8.5%	8.2%	-24bps	9.1%
Adj. PAT	₹ mn	47	22	-53%	47
Adj. PAT margin	%	2.1%	1.2%	-93bps	2.1%

Source: CRISIL Research estimates

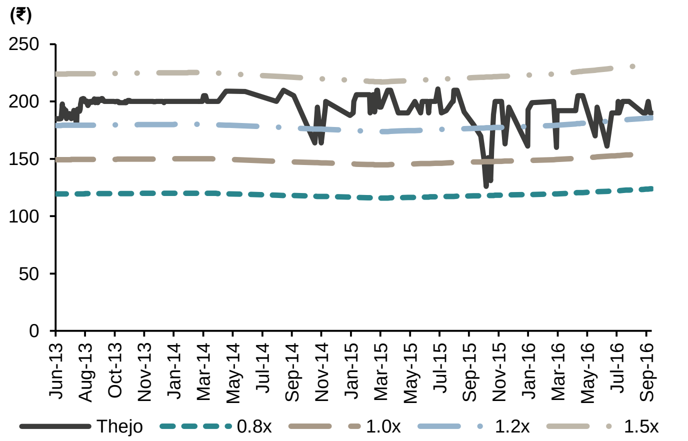
Reasons for changes in estimates

Line item	FY17E
Revenue	Lowered factoring in slower-than-expected ramp-up in services revenue
EBITDA margin	Lowered factoring in effect of a steep rise in rubber prices
PAT margin	Lowered factoring in higher debt owing to stretched working capital cycle in FY16

Valuation Grade: 4/5

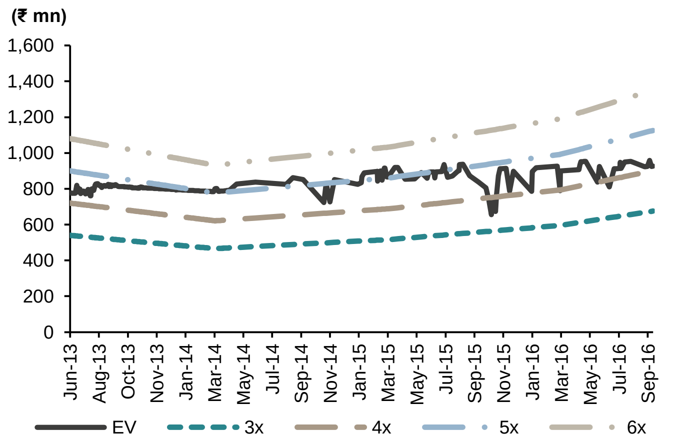
We have rolled forward our estimates by one year to FY18. We have lowered FY17 revenue and earnings estimates. However, we have increased our long-term margin estimates factoring in an expected turnaround in Thejo's overseas operations. Subsequently, we have raised the DCF-based fair value estimate to ₹223 per share from ₹194 per share. This fair value implies P/B multiples of 1.5x FY17E and 1.4x FY18E book value. At the current market price of ₹190, the SME valuation grade is **4/5**.

Fig 12: One-year forward P/B band



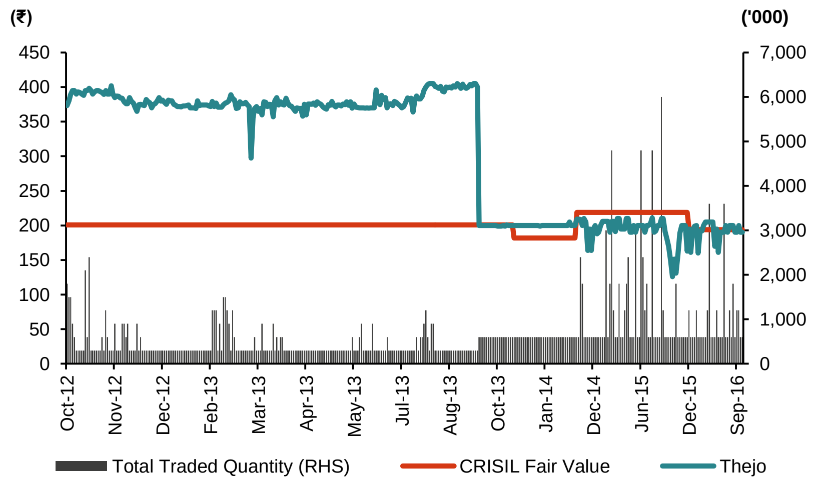
Source: NSE, CRISIL Research

Fig 13: One-year forward EV/EBITDA band



Source: NSE, CRISIL Research

Fig 14: Fair value since initiation



Source: NSE, CRISIL Research

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-12	Initiating Coverage	5/5	₹201	3/5	₹187
9-Nov-12	H1FY13 Result Update	5/5	₹201	3/5	₹198
12-Jun-13	H2FY13 Result Update	5/5	₹201	3/5	₹185
27-Nov-13	H1FY14 Result Update	5/5	₹182	3/5	₹200
09-May-14	Detailed report	5/5	₹219	3/5	₹201
27-Jun-14	H2FY14 Result Update	5/5	₹219	3/5	₹209
08-Dec-14	Detailed report	5/5	₹219	3/5	₹200
13-Jul-15	H2FY15 Result update	5/5	₹219	3/5	₹200
05-Jan-16	H1FY16 Result update	5/5	₹194	3/5	₹200
27-Sep-16	Detailed report	5/5	₹223	4/5	₹190

Table 7: Comparison with other players in the material handling equipment industry

Company	M cap (₹ mn)	P/E (x)			P/B (x)			RoE (%)			EV/EBITDA (x)		
		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Thejo Engineering	687	NM	85.5	19.4	1.4	1.4	1.3	(1.4)	1.6	6.8	8.0	7.9	5.9
Techno Electric & Engineering	37,041	22.1	20.0	16.1	3.1	3.2	2.7	14.6	17.9	19.0	15.5	13.1	11.4
BGR Energy Systems	8,616	28.0	15.3	20.2	0.6	NA	NA	2.1	4.7	4.2	8.2	NA	NA
Elecon engineering	6,144	15.6	13.0	43.4	1.1	1.0	0.9	7.0	(0.1)	2.6	7.6	7.9	6.7
Material handling equipment (median)		**22.1**	**15.3**	**20.2**	**1.1**	**2.1**	**1.8**	**7.0**	**4.7**	**4.2**	**8.2**	**10.5**	**9.0**
MRF	169,194	NA	10.1	9.8	2.4	2.0	1.7	NA	21.0	18.7	NA	5.4	5.0
Apollo Tyres	104,859	8.1	9.8	9.2	1.4	1.5	1.3	19.5	15.6	14.7	4.9	5.5	4.9
Ceat	41,095	9.8	10.4	8.4	2.1	1.7	1.4	23.8	17.0	18.1	5.4	6.2	5.1
JK Tyre & Industries	32,956	4.1	7.3	6.0	1.1	1.6	1.3	29.5	24.0	23.8	3.9	4.6	4.0
Tyre manufacturers (median)		**8.1**	**9.9**	**8.8**	**1.8**	**1.6**	**1.4**	**23.8**	**19.0**	**18.4**	**4.9**	**5.4**	**5.0**
Sintex Industries	35,032	5.4	5.3	4.1	0.6	0.6	0.6	12.3	11.6	13.3	6.1	5.1	4.3
Phillips Carbon Black	8,613	15.3	11.8	9.1	0.6	1.5	1.3	4.2	13.0	15.0	5.5	6.3	5.6

**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. It manufactures products for bulk material handling, mineral processing and corrosion protection to mining, power, steel, coal, cement, pharmaceutical and other industries. It also provides industrial conveyor services such as belt splicing, pulley lagging, belt laying, conveyor installation and repair services.

Thejo's subsidiaries: Australia (Thejo Australia Pty Ltd), Saudi Arabia (Thejo Hatcon Industrial Services Company), Brazil (Thejo Brasil Comercio E Servicos Ltda) and Chile (Thejo Engineering LatinoAmerica SpA).

Fig 15: Thejo's products and services

Bulk material handling

Flow promotion system


Belt monitoring and control

Conveyor belt repair accessories


Conveyor belt repair


Dust supression


Transfer point solutions


Conveyor belt cleaners

Industrial Services


Conveyor belt splicing service
(Steel cord belts, fabric ply belts)


Conveyor repair service
(Cover buildup, edge repairs, spot repairs)


Conveyor belt laying
(Conveyor belts)


Conveyor pulley lagging
(Lagging of conveyor belt pulleys)


Corrosion protection application
(Chemical, power, de-salination)

Source: Company, CRISIL Research

Annexure: Financials (Consolidated)

Income statement

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Operating income	**1,471**	**1,703**	**1,603**	**1,904**	**2,271**
EBITDA	**143**	**113**	**130**	**157**	**208**
EBITDA margin	**9.7%**	**6.6%**	**8.1%**	**8.2%**	**9.1%**
Depreciation	37	62	57	61	67
EBIT	**106**	**51**	**73**	**96**	**141**
Interest	45	56	60	66	74
Operating PBT	**61**	**(5)**	**13**	**30**	**67**
Other income	5	7	2	3	3
Exceptional inc/(exp)	(2)	(9)	-	-	-
PBT	**63**	**(7)**	**15**	**33**	**70**
Tax provision	50	22	22	11	23
Minority interest	-	(21)	-	-	-
PAT (Reported)	**13**	**(8)**	**(7)**	**22**	**47**
Less: Exceptionals	(2)	(9)	-	-	-
Adjusted PAT	**16**	**1**	**(7)**	**22**	**47**

Ratios

	FY14	FY15	FY16	FY17E	FY18E
Growth					
Operating income (%)	15.0	15.8	(5.9)	18.8	19.3
EBITDA (%)	(20.5)	(20.9)	15.1	20.7	32.2
Adj PAT (%)	(79.9)	(94.9)	NM	NM	112.4
Adj EPS (%)	(79.9)	(94.9)	NM	NM	112.4
Profitability					
EBITDA margin (%)	9.7	6.6	8.1	8.2	9.1
Adj PAT Margin (%)	1.1	0.0	(0.5)	1.2	2.1
RoE (%)	3.1	0.2	(1.4)	4.4	8.8
RoCE (%)	13.5	5.9	8.2	10.4	14.1
RoIC (%)	9.9	5.8	6.8	10.9	13.9
Valuations					
Price-earnings (x)	41.5	NM	NM	29.5	13.9
Price-book (x)	1.3	1.3	1.3	1.3	1.2
EV/EBITDA (x)	6.3	8.3	7.7	6.5	5.1
EV/Sales (x)	0.6	0.6	0.6	0.5	0.5
Dividend payout ratio (%)	90.8	(143.7)	(163.7)	21.6	21.0
Dividend yield (%)	1.8	1.8	1.8	0.7	1.5
B/S ratios					
Inventory days	45	43	63	59	56
Creditors days	78	78	85	85	83
Debtor days	103	106	109	105	100
Working capital days	89	90	104	97	92
Gross asset turnover (x)	3.2	3.1	2.7	3.0	3.3
Net asset turnover (x)	5.2	5.3	5.3	6.5	7.9
Sales/operating assets (x)	5.1	5.2	5.2	6.4	7.8
Current ratio (x)	2.0	2.0	2.1	2.0	2.0
Debt-equity (x)	0.6	0.7	0.8	0.9	0.9
Net debt/equity (x)	0.5	0.6	0.7	0.7	0.7
Interest coverage (EBITDA)	3.2	2.0	2.2	2.4	2.8
Interest coverage (EBIT)	2.3	0.9	1.2	1.4	1.9

Per share

	FY14	FY15	FY16	FY17E	FY18E
Adj EPS (₹)	4.6	0.2	(2.1)	6.4	13.7
CEPS	15.4	18.3	14.4	24.3	33.2
Book value	149.3	150.4	144.8	149.6	159.9
Dividend (₹)	3.5	3.5	3.5	1.4	2.9
Actual o/s shares (mn)	3.4	3.4	3.4	3.4	3.4

Balance Sheet

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Liabilities					
Equity share capital	34	34	34	34	34
Reserves	478	482	463	479	515
Net worth	**513**	**517**	**497**	**514**	**549**
Minorities	-	-	-	-	-
Convertible debt	-	-	1	1	1
Other debt	314	369	393	443	493
Total debt	**314**	**369**	**394**	**444**	**494**
Deferred tax liability (net)	8	1	(5)	(5)	(5)
Total liabilities	**835**	**887**	**886**	**953**	**1,038**
Assets					
Net fixed assets	335	309	301	289	287
Capital WIP	5	4	3	3	3
Total fixed assets	**340**	**313**	**304**	**292**	**291**
Investments	**24**	**21**	**22**	**22**	**22**
Current assets					
Inventory	143	164	225	250	280
Sundry debtors	462	549	537	606	689
Loans and advances	274	318	265	314	375
Cash & bank balance	72	82	44	74	87
Marketable securities	-	-	-	-	-
Total current assets	**951**	**1,113**	**1,071**	**1,245**	**1,431**
Total current liabilities	**481**	**565**	**514**	**610**	**710**
Net current assets	**471**	**548**	**557**	**634**	**722**
Intangibles/Misc. expenditure	**0**	**5**	**4**	**4**	**4**
Total assets	**835**	**887**	**886**	**953**	**1,038**

Cash flow

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Pre-tax profit	66	2	15	33	70
Total tax paid	(42)	(28)	(28)	(11)	(23)
Depreciation	37	62	57	61	67
Working capital changes	(28)	(68)	(47)	(47)	(74)
Net cash from operations	**33**	**(32)**	**(3)**	**36**	**40**
Cash from investments					
Capital expenditure	(141)	(40)	(47)	(50)	(65)
Investments and others	(5)	3	(1)	-	-
Net cash from investments	**(147)**	**(37)**	**(48)**	**(50)**	**(65)**
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	51	55	24	50	50
Dividend (incl. tax)	(14)	(14)	(14)	(6)	(12)
Others (incl extraordinaries)	27	38	3	(0)	(0)
Net cash from financing	**63**	**79**	**13**	**44**	**38**
Change in cash position	(50)	10	(39)	30	13
Closing cash	72	82	44	74	87

Half-yearly financials (standalone)

(₹ mn)	H2FY14	H1FY15	H2FY15	H1FY16	H2FY16
Operating income	**872**	**824**	**865**	**795**	**778**
Change (h-o-h)	41%	-6%	5%	-8%	-2%
EBITDA	**124**	**64**	**106**	**88**	**84**
Change (h-o-h)	71%	-48%	65%	-17%	-4%
EBITDA margin	**14.2%**	**7.8%**	**12.2%**	**11.0%**	**10.8%**
PAT	56	14	40	28	28
Adj PAT	**59**	**14**	**40**	**28**	**28**
Change (h-o-h)	91%	-76%	186%	-30%	-3%
Adj PAT margin	**6.7%**	**1.7%**	**4.7%**	**3.6%**	**3.5%**
Adj EPS	**17.1**	**4.1**	**11.8**	**8.3**	**8.0**

Source: CRISIL Research

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Last updated: April 2016

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