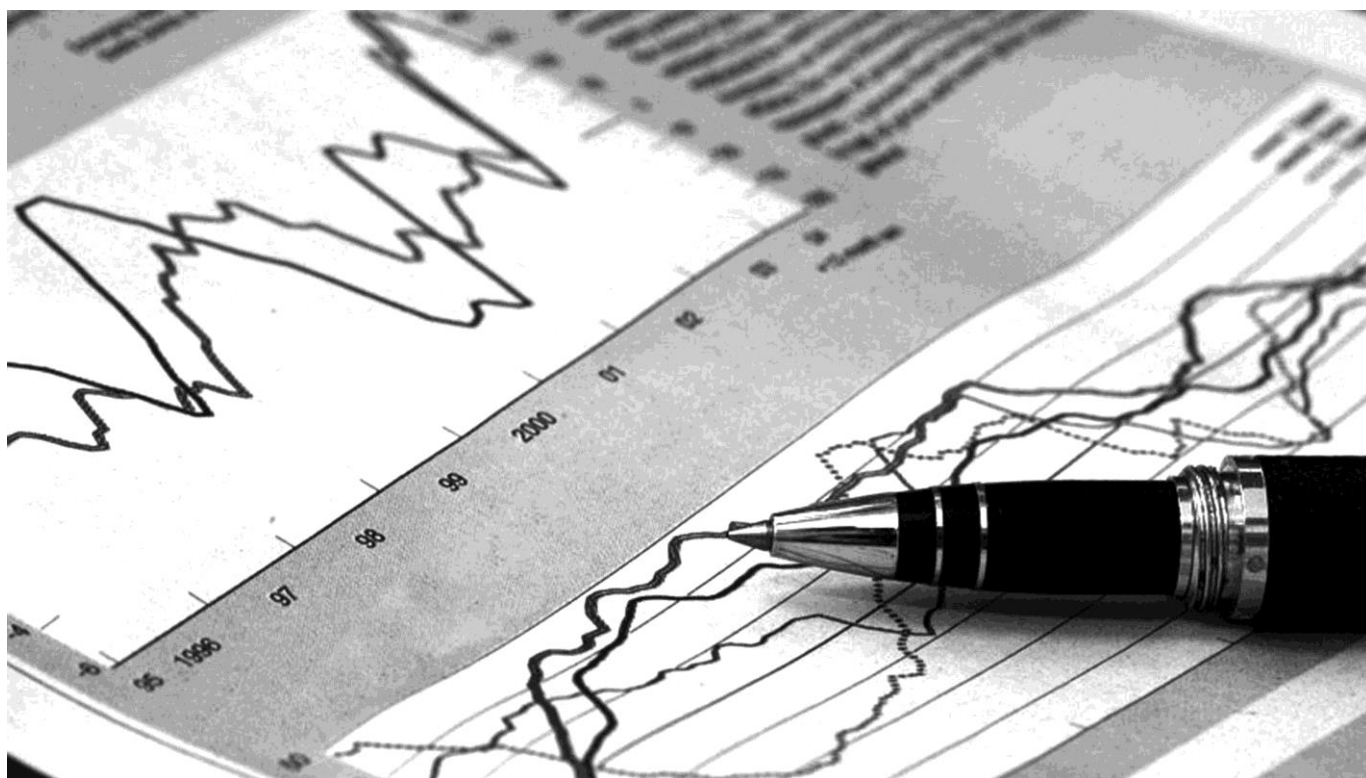


# **CRISIL SME IER**

## **Independent Equity Research**

Enhancing investment decisions



## **Thejo Engineering Ltd**

H1FY17 Results Update

## 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.

<b>CRISIL SME Fundamental Grade</b>	<b>Assessment</b>	<b>CRISIL SME Valuation Grade</b>	<b>Assessment</b>
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

January 11, 2017

**Overseas subsidiaries bounced back, but domestic business was subdued**

**SME Fundamental Grade: 5/5 (Excellent fundamentals)**

**SME Valuation Grade: 5/5 (CMP has strong upside) Fair Value: ₹250 CMP: ₹195**

Thejo Engineering Ltd's (Thejo's) H1FY17 consolidated revenue was below, but earnings were above CRISIL Research's expectations. Revenue grew at a tepid 3.6% y-o-y to ₹911 mn. The services segment's revenue (68% of sales) grew 6.7% y-o-y to ₹211 mn; the manufacturing segment's revenue (23% of total sales) fell 8.4% y-o-y. EBITDA margin expanded 298 bps y-o-y to 9.6%, largely aided by fall in employee cost as a percentage of sales. Owing to higher EBITDA, adjusted net profit increased to ₹23 mn compared with a net loss of ₹3 mn in H1FY16. We expect the services and products divisions to benefit from the gradual pick-up in steel and mining sectors over the next two-three quarters and robust demand from overseas clients. We maintain the SME fundamental grade of 5/5.

### Strong growth in overseas subsidiaries offset by subdued domestic demand

The manufactured products segment's revenue (net of intersegment sales\*) declined 8.5% y-o-y owing to subdued demand from steel and industrial segments. This also impacted the domestic services revenue, which fell 6% y-o-y to ₹455 mn. However, revenue from overseas subsidiaries jumped 75% y-o-y to ₹146 mn led by strong orders from Australia. As expected, the region witnessed a revival in exports of mining products such as iron ore and coal. This trend is expected to continue going forward, with Australian iron ore and coal exporters likely to gain market share# from other high-cost producing nations. The other segment (9% of sales) reported growth 14.4% y-o-y in H1FY17. Going forward, gradual pick-up in domestic demand from steel sector and higher sales in overseas subsidiaries is expected to drive revenue. We forecast revenue to increase at 16% CAGR over FY16-18E. However, a prolonged slowdown in domestic demand, poses risk to our revenue forecasts.

### Improving profitability at overseas subsidiaries drove margin expansion

EBITDA margin expanded 298 bps y-o-y owing to 11% y-o-y decline in employee costs, as the company focussed on rationalising its operations across geographies. This was despite a 439 bps y-o-y rise in raw material costs as a percentage of sales, with fall in contribution from higher-margin manufacturing revenue. Overseas subsidiaries cumulatively posted an operating profit of ₹7 mn in H1FY17 compared to a loss of ₹44 mn in FY16. We estimate consolidated EBITDA margin to expand to 9.8% by FY18E, led by growth in revenue from manufactured products and operating leverage benefits in the overseas subsidiaries.

### Fair value increased to ₹250 per share

We have increased our earnings estimates for FY17 and FY18. We have lowered our cost of equity assumption by 100 bps. Consequently, the discounted cash flow (DCF)-based fair value is increased to ₹250 per share from ₹223. The fair value implies P/B multiple of 1.5x FY18 book value per share. At the current market price of ₹195, our valuation grade is 5/5.

## KEY FORECAST

(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
Operating income	1,471	1,703	1,603	1,790	2,133
EBITDA	143	113	130	170	209
Adj net income	34	1	2	39	57
Adj EPS (₹)	9.8	0.2	0.6	11.3	16.5
EPS growth (%)	(56.5)	(97.6)	161.7	1,742.8	45.7
Dividend yield (%)	1.8	1.8	1.8	1.3	1.8
RoCE (%)	13.5	5.9	8.2	12.5	14.8
RoE (%)	6.8	0.2	0.4	7.6	10.4
PE (x)	19.3	808.4	308.9	16.8	11.5
P/BV (x)	1.3	1.3	1.3	1.2	1.1
EV/EBITDA (x)	6.3	8.3	7.7	5.8	4.9

NM: Not meaningful; CMP: Current market price;

\*intersegment sales includes manufactured products used as part of its service contracts

#Australian iron ore and thermal coal exports to rise 8% and 5% respectively, as forecasted by Department of Industry, Australia

Source: Company, CRISIL Research estimates

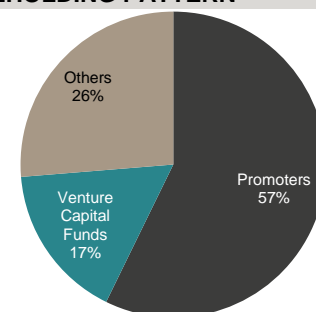
## SME CFV MATRIX

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

## KEY STOCK STATISTICS

NIFTY	8381
NSE EMERGE ticker	THEJO
Face value (₹ per share)	10
Shares outstanding (mn)	3.4
Market cap (₹ mn)/(US\$ mn)	670/10
Enterprise value (₹ mn)/(US\$ mn)	925/14
Free float (%)	43%

## SHAREHOLDING PATTERN

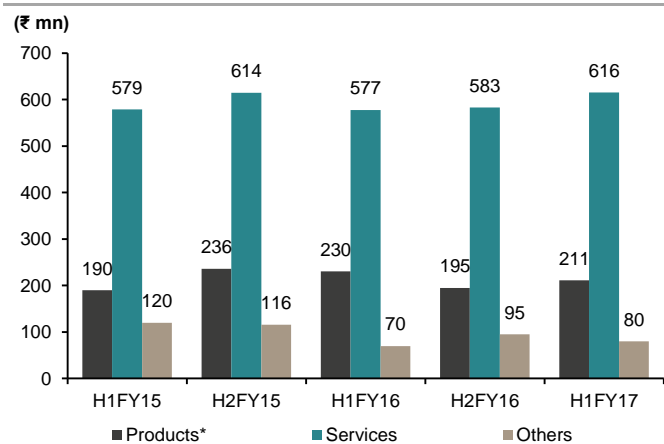


## H1FY17 Results Summary (Consolidated)

(₹ mn)	H1FY17	H2FY16	H1FY16	h-o-h (%)	y-o-y (%)
Net sales	907	873	877	3.9	3.3
Other operating income	4	2	2	126.5	153.4
<b>Operating Income</b>	<b>911</b>	<b>874</b>	<b>879</b>	<b>4.2</b>	<b>3.6</b>
Raw material consumption	187	150	142	25.0	31.8
as % of Operating income	20.6%	17.1%	16.2%	343bps	439bps
Employee costs	347	327	391	6.1	(11.1)
Other expenditure	289	327	288	(11.7)	0.3
<b>EBIDTA</b>	<b>87</b>	<b>70</b>	<b>58</b>	<b>24.7</b>	<b>50.2</b>
<b>EBIDTA margin</b>	<b>9.6%</b>	<b>8.0%</b>	<b>6.6%</b>	<b>158bps</b>	<b>298bps</b>
Depreciation	26	29	28	(10.0)	(5.7)
<b>EBIT</b>	<b>61</b>	<b>41</b>	<b>30</b>	<b>49.2</b>	<b>101.1</b>
Interest	28	32	28	(14.6)	(0.3)
Other Income	2	2	2	0.6	24.0
<b>PBT</b>	<b>36</b>	<b>11</b>	<b>4</b>	<b>235.2</b>	<b>733.0</b>
Tax	17	6	17	199.0	(0.2)
<b>Reported PAT</b>	<b>19</b>	<b>5</b>	<b>(12)</b>	<b>275.1</b>	<b>NM</b>
Minority Interest	(4)	0	(10)	NM	NM
<b>Adjusted PAT after MI</b>	<b>23</b>	<b>5</b>	<b>(3)</b>	<b>389.5</b>	<b>NM</b>
<b>Adjusted PAT margin</b>	<b>2.5%</b>	<b>0.5%</b>	<b>-0.3%</b>	<b>198bps</b>	<b>NM</b>
No. of equity shares (mn)	3.4	3.4	3.4	-	-
<b>Adjusted EPS</b>	<b>6.7</b>	<b>1.4</b>	<b>(0.7)</b>	<b>389.5</b>	<b>NM</b>

Source: Company, CRISIL Research

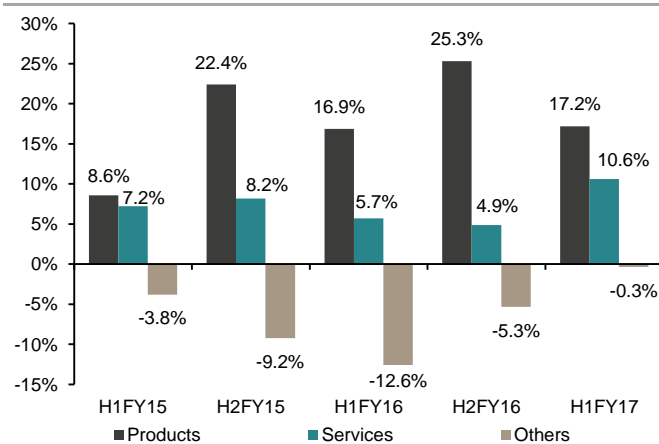
### Segmental revenue



\*Net of inter-segment transactions

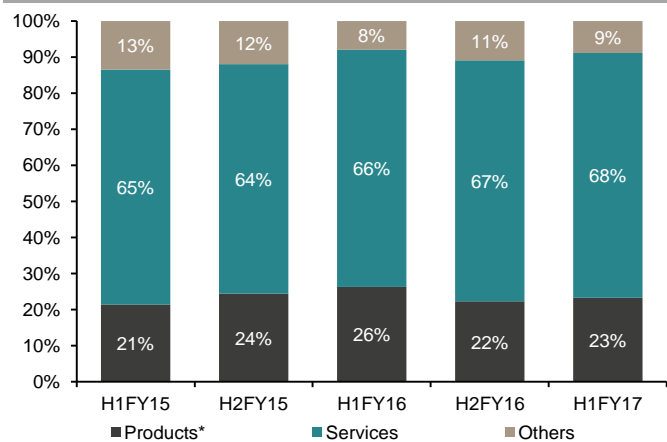
Source: Company, CRISIL Research

### Segmental EBIT margin trend



Source: Company, CRISIL Research

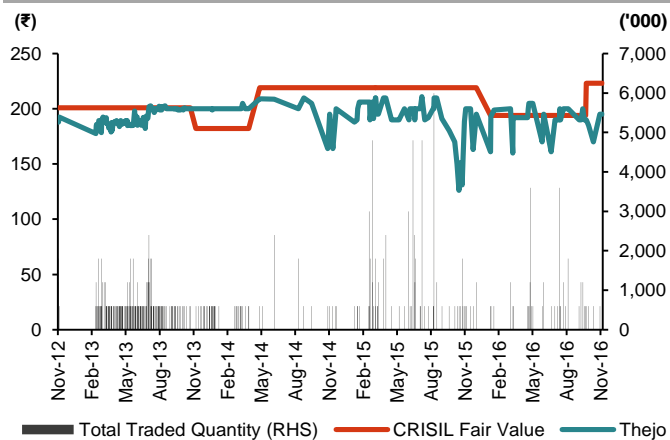
### Revenue mix



\*Net off inter-segment transactions

Source: Company, CRISIL Research

### Fair value and share price movement



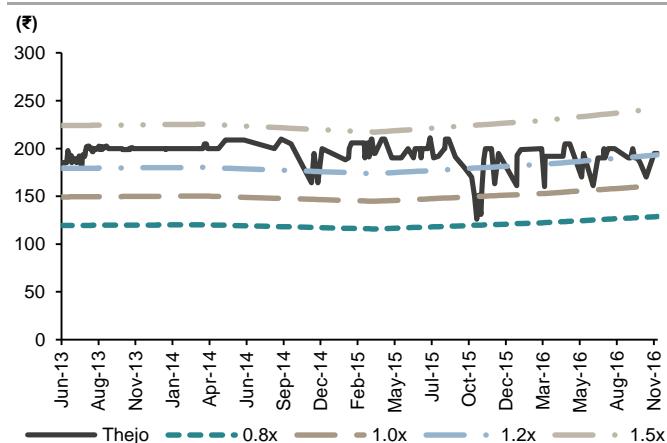
Source: NSE, CRISIL Research

## Valuation

**Grade: 5/5**

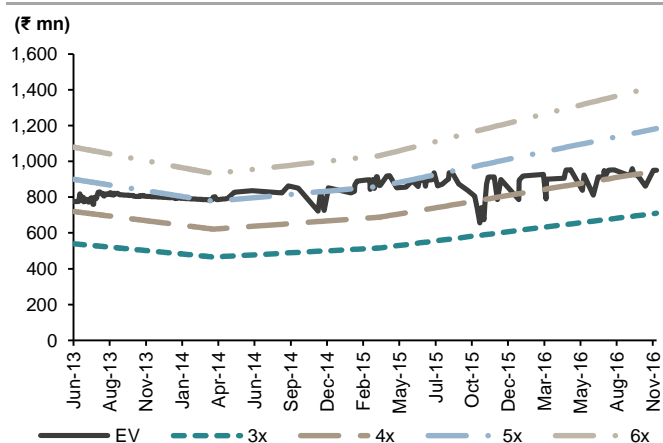
We have lowered our revenue estimates for FY17 and FY18, but increased our margin and earnings estimates factoring in higher margins in the foreign subsidiaries. Also, we have lowered our cost of equity assumption by 100 bps, considering sustained decline in government bond yields. Consequently, the DCF-based fair value is increased to ₹250 per share from ₹223. The fair value implies P/B multiple of 1.5x FY18E book value per share. At the current market price of ₹195, our valuation grade is **5/5**.

**Fig 12: One-year forward P/B band**



Source: NSE, CRISIL Research

**Fig 13: One-year forward EV/EBITDA band**



Source: NSE, CRISIL Research

### CRISIL SME IER reports released on Thejo Engineering Ltd

Date	Nature of report	SME Fundamental		SME Valuation		CMP (on the date of report)
		grade	Fair value	grade		
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
11-Jan-16	H1FY17 Result update	5/5	₹250	5/5		₹195

## Annexure: Financials (Consolidated)

Income statement						Balance Sheet					
(₹ mn)	FY14	FY15	FY16	FY17E	FY18E	(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
<b>Operating income</b>	1,471	1,703	1,603	1,790	2,133	<b>Liabilities</b>					
<b>EBITDA</b>	143	113	130	170	209	Equity share capital	34	34	34	34	34
<b>EBITDA margin</b>	9.7%	6.6%	8.1%	9.5%	9.8%	Reserves	478	482	463	492	534
Depreciation	37	62	57	54	58	<b>Net worth</b>	513	517	497	526	569
<b>EBIT</b>	106	51	73	117	151	Minorities	-	-	-	-	-
Interest	45	56	60	63	70	Convertible debt	-	-	1	1	1
<b>Operating PBT</b>	61	(5)	13	54	80	Other debt	314	369	393	443	493
Other income	5	7	2	4	4	<b>Total debt</b>	314	369	394	444	494
Exceptional inc/(exp)	(2)	(9)	-	-	-	Deferred tax liability (net)	8	1	(5)	(5)	(5)
<b>PBT</b>	63	(7)	15	58	85	<b>Total liabilities</b>	835	887	886	965	1,058
Tax provision	50	22	22	19	28	<b>Assets</b>					
Minority interest	(18)	(21)	(9)	-	-	Net fixed assets	335	309	301	297	304
<b>PAT (Reported)</b>	31	(8)	2	39	57	Capital WIP	5	4	3	3	3
Less: Exceptionals	(2)	(9)	-	-	-	<b>Total fixed assets</b>	340	313	304	300	307
<b>Adjusted PAT</b>	34	1	2	39	57	<b>Investments</b>	24	21	22	22	22
						<b>Current assets</b>					
						Inventory	143	164	225	235	263
						Sundry debtors	462	549	537	568	645
						Loans and advances	274	318	265	296	352
						Cash & bank balance	72	82	44	106	127
						Marketable securities	-	-	-	-	-
						<b>Total current assets</b>	951	1,113	1,071	1,205	1,387
						<b>Total current liabilities</b>	481	565	514	566	662
						<b>Net current assets</b>	471	548	557	639	725
						<b>Intangibles/Misc. expenditure</b>	0	5	4	4	4
						<b>Total assets</b>	835	887	886	965	1,058
						<b>Cash flow</b>					
						(₹ mn)	FY14	FY15	FY16	FY17E	FY18E
						Pre-tax profit	66	2	15	58	85
						Total tax paid	(42)	(28)	(28)	(19)	(28)
						Depreciation	37	62	57	54	58
						Working capital changes	(28)	(68)	(47)	(20)	(65)
						<b>Net cash from operations</b>	33	(32)	(3)	73	50
						<b>Cash from investments</b>					
						Capital expenditure	(141)	(40)	(47)	(50)	(65)
						Investments and others	(5)	3	(1)	-	-
						<b>Net cash from investments</b>	(147)	(37)	(48)	(50)	(65)
						<b>Cash from financing</b>					
						Equity raised/(repaid)	-	-	-	-	-
						Debt raised/(repaid)	51	55	24	50	50
						Dividend (incl. tax)	(14)	(14)	(14)	(10)	(14)
						Others (incl. extraordinary)	27	38	3	0	0
						<b>Net cash from financing</b>	63	79	13	40	36
						Change in cash position	(50)	10	(39)	63	21
						Closing cash	72	82	44	106	127
						<b>Half-yearly financials</b>					
						(₹ mn)	H1FY15	H2FY15	H1FY16	H2FY16	H1FY17
						<b>Operating income</b>	889	966	877	873	907
						Change (h-o-h)	-	9%	-9%	-1%	4%
						<b>EBITDA</b>	25	88	58	70	87
						Change (h-o-h)	-	246%	-34%	21%	25%
						<b>EBITDA margin</b>	2.8%	9.1%	6.6%	8.0%	9.6%
						PAT	(35)	12	(12)	5	19
						<b>Adj PAT</b>	(25)	22	(3)	5	23
						Change (h-o-h)	-	-190%	-112%	-282%	389%
						<b>Adj PAT margin</b>	-2.8%	2.3%	-0.3%	0.5%	2.5%
						<b>Adj EPS</b>	(7.2)	6.5	(0.7)	1.4	6.7

Source: CRISIL Research

# Research

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CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also 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 the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements 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. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

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**Last updated: April 2016**

## 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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