

Thejo Engineering Limited

41 Cathedral Road,
Chennai 600 086,
India

T 91 44 42221900
F 91 44 42221910
thejo@thejo-engg.com
www.thejo-engg.com



04th January, 2018

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (E),
Mumbai 400051.

Dear Sir/Madam,

Sub: CRISIL SME Independent Equity Research
Ref: Our Scrip Code THEJO – EQ (SM)

This is to inform you that CRISIL has given its H1FY18 Results Update Report under its SME Independent equity research and the ratings of the Company as follows:

SME Fundamental Grade – 5/5 and
SME Valuation Grade – 3/5.

We are enclosing herewith the CRISIL SME Independent Equity Research Report (H1FY18 Results Update) for your information and records.

Kindly acknowledge receipt.

With thanks,
Yours truly,
For Thejo Engineering Limited,

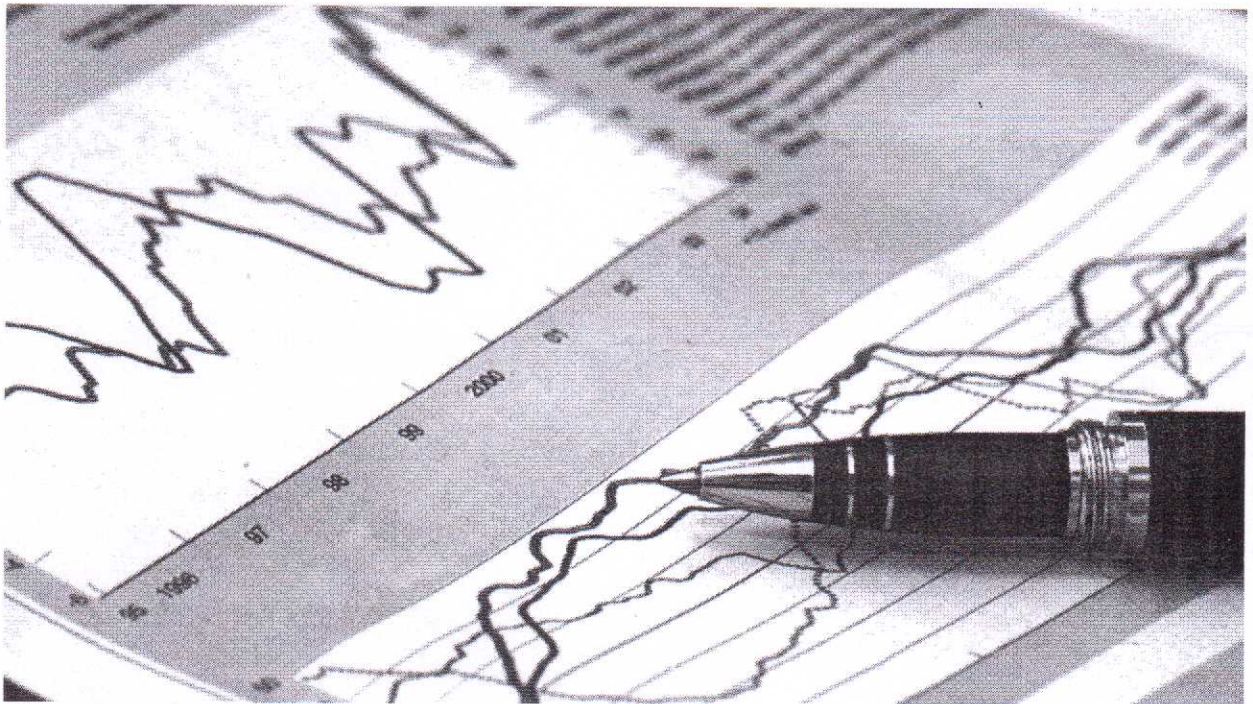
A handwritten signature in blue ink, appearing to read "V.A. George".

V.A. GEORGE
MANAGING DIRECTOR
DIN: 01493737

CRISIL SME IER

Independent Equity Research

Enhancing investment decisions



Thejo Engineering Ltd

H1FY18 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.

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)

Research Analysts

Arun Venkatesh

arun.venkatesh@crisil.com

Sayan Das Sharma

sayan.sharma@crisil.com

Client servicing desk

+91 22 3342 3561

clientservicing@crisil.com

Thejo Engineering Ltd

January 02, 2018

Robust earnings growth on the cards

SME Fundamental Grade: 5/5 (Excellent fundamentals)

SME Valuation Grade: 3/5 (CMP is aligned)

Fair Value: ₹580

CMP: ₹565

Thejo Engineering Ltd's (Thejo's) H1FY18 consolidated earnings were above CRISIL Research's expectations. Revenue increased 22.5% y-o-y to ₹1,116 mn, driven by Indian operations and overseas services business. EBITDA margin expanded 172 bps y-o-y to 11.3%, as higher revenue from its overseas operations resulted in better absorption of fixed costs. Adjusted net profit increased to ₹49 mn from ₹23 mn in H1FY17, due to higher EBITDA. We expect the company's Indian product and service divisions to further benefit from an uptick in domestic demand from steel, mining, power and industrial sectors. Also, with a strong footing in the overseas markets, revenue growth is expected to remain robust in its subsidiaries. We maintain the SME fundamental grade of 5/5.

Domestic pick-up in end-user demand to boost revenue growth

Indian operations posted strong growth, driven by domestic product sales (27% of overall sales in H1FY18; grew 34% y-o-y) and services (41% of sales; grew 12% y-o-y) businesses, with the pick-up in end-user industries, such as steel, mining and power. With a well-diversified client base across steel, power, mining and industrial sectors, Thejo is expected to be a key beneficiary of a sustained demand recovery in these sectors. We forecast its Indian business to grow at a 14% CAGR over FY17-20E.

Overseas operation to continue growth momentum

Revenue from its overseas services business (~23% of sales) grew a robust 49% y-o-y growth. This was led by strong growth in its Australian operations, aided by repeat orders and one-time large order win in Saudi Arabia, as expected. However, product exports (~10% of sales) declined 11% y-o-y. Thejo's overseas operations are expected to gain further traction, due to the expectation of: (a) healthy growth in mining output by Australian mining companies; and (b) new client wins in Saudi Arabia, where the government's recent policy changes has encouraged foreign investments in the non-oil sectors, such as mineral mining. We forecast its overseas operations to grow at a 24% CAGR over FY17-20E.

Operating leverage at overseas subsidiaries aided margin expansion

EBITDA margin expanded 172 bps y-o-y to 11.3%, largely because of better absorption of fixed costs with the increase in revenue of overseas operations. Fall in demand from China is expected to lead to a decline in rubber prices (a key raw material). This, coupled with operating leverage benefits stemming from growth in the overseas business, is expected to drive a margin expansion of 90 bps in FY18 to 12.2%. We expect the company's plan to outsource services and operating leverage benefits to lead to a 280 bps expansion in EBITDA margin over FY17 to FY20E to 14.1%. Driven by revenue growth and margin expansion, adjusted PAT is forecast to grow at a 50% CAGR over FY17-20E.

Fair value increased to ₹580 per share

We have increased our FY18 and FY19 earnings estimates and rolled forward our projections by one year to FY19. Consequently, our discounted cash flow (DCF)-based fair value estimate has risen to ₹580 per share from ₹304 earlier. At the current market price of ₹565, our valuation grade is 3/5.

KEY FORECAST

(₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
Operating income	1,603	1,783	2,159	2,559	2,933
EBITDA	130	201	262	335	413
Adj net income	2	58	102	149	194
Adj EPS (₹)	0.6	16.8	29.8	43.3	56.6
EPS growth (%)	161.7	2,626.6	77.9	45.2	30.6
Dividend yield (%)	0.6	0.6	1.1	1.6	2.1
RoCE (%)	8.4	15.9	20.3	25.0	28.1
RoE (%)	0.4	11.1	16.9	21.2	23.4
PE (x)	918.6	33.7	18.9	13.0	10.0
P/BV (x)	4.1	3.4	3.0	2.6	2.1
EV/EBITDA (x)	17.8	11.4	8.7	6.8	5.5

NM: Not meaningful; CMP: Current market price;

Source: Company, CRISIL Research estimates

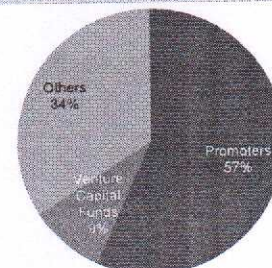
SME CFV MATRIX

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	10442
NSE EMERGE ticker	THEJO
Face value (₹ per share)	10
Shares outstanding (mn)	3.4
Market cap (₹ mn)/(US\$ mn)	1,940/30
Enterprise value (₹ mn)/(US\$ mn)	2,284/36
Free float (%)	43%

SHAREHOLDING PATTERN



For detailed initiating coverage report please visit: www.crisil.com

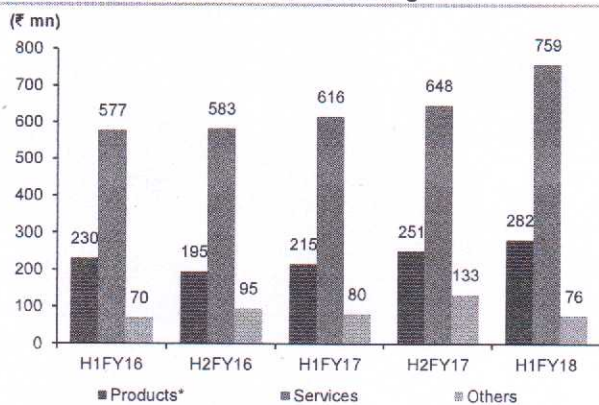
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

H2FY18 results summary (consolidated)

(₹ mn)	H1FY18	H2FY17	H1FY17	h-o-h (%)	y-o-y (%)
Operating Income	1,116	1,031	911	8.2	22.5
Raw material consumption	234	246	187	(4.7)	25.1
as % of Operating income	21.0%	23.8%	20.6%	-285 bps	43 bps
Employee costs	383	344	347	11.3	10.3
Other expenditure	373	328	289	13.5	29.0
EBIDTA	126	113	87	11.9	44.5
EBIDTA margin	11.3%	10.9%	9.6%	37 bps	172 bps
Depreciation	25	27	26	(9.6)	(5.6)
EBIT	102	86	61	18.8	65.9
Interest	28	30	28	(6.8)	(0.2)
Other Income	5	1	2	288.1	159.0
PBT	79.3	57.3	35.6	38.4	122.9
Tax	17	14	17	14.4	(0.6)
Reported PAT	63	43	19	46.5	231.4
Minority Interest	14	8	(4)	72.2	(452.2)
Adjusted PAT after MI	49	35	23	40.4	112.1
Adjusted PAT margin	4.4%	3.4%	2.5%	100 bps	184 bps
No. of equity shares (mn)	3.4	3.4	3.4	-	-
Adjusted EPS (₹)	14.2	10.1	6.7	40.4	112.1

Source: Company, CRISIL Research

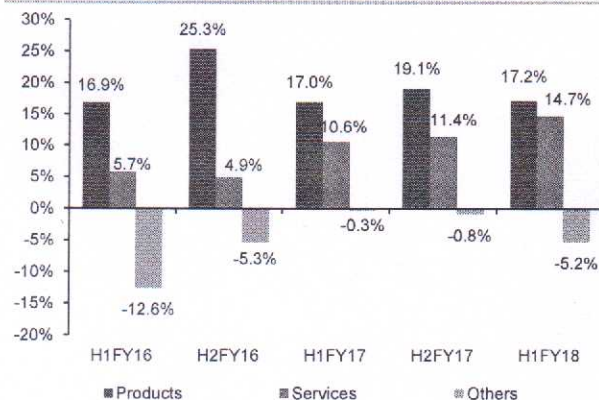
Domestic product sales drive revenue growth



*Net of inter-segment sales

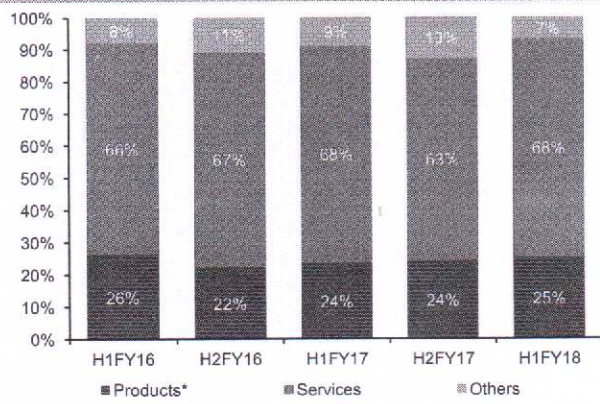
Source: Company, CRISIL Research

Overseas operations drive services margin expansion



Source: Company, CRISIL Research

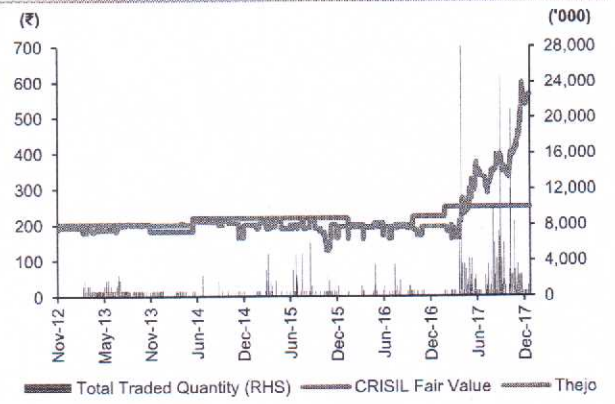
Revenue mix



*Net off inter-segment sales

Source: Company, CRISIL Research

Fair value and share price movement



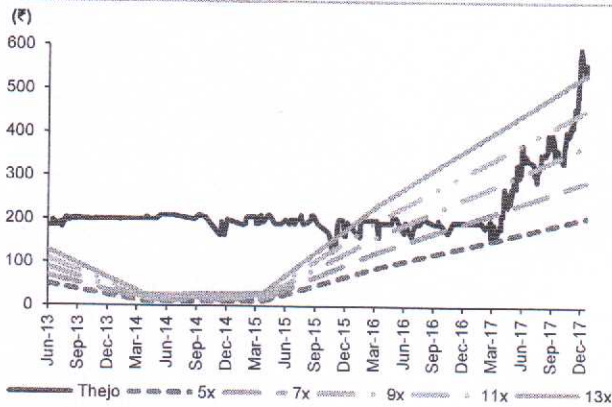
Source: NSE, CRISIL Research

Valuation

Grade: 3/5

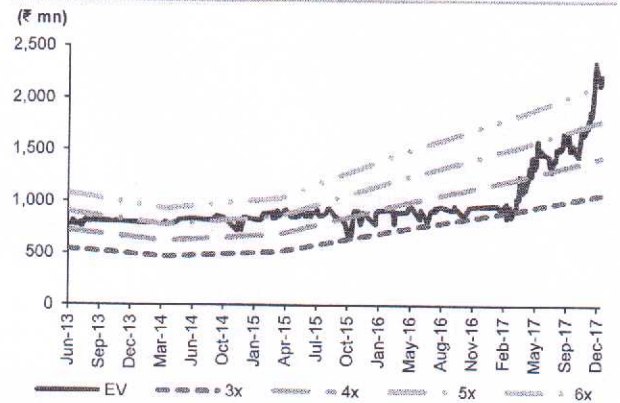
We have increased our FY18 and FY19 earnings estimates and rolled forward our projections by one year. Consequently, our DCF-based fair value estimate has risen to ₹580 per share from ₹304. Our new fair value estimate implies a P/E of 13.4x on FY19E EPS and 10.3x on FY20E EPS. At the current market price of ₹565, our valuation grade is 3/5.

Fig 12: One-year forward P/E 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 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
11-Jan-17	H1FY17 Result update	5/5	₹250	5/5	₹195
14-Sep-17	H2FY17 Result update	5/5	₹304	2/5	₹348
02-Jan-18	H1FY18 Result update	5/5	₹580	3/5	₹565

Annexure: Financials (Consolidated)

Income statement						Balance Sheet					
(₹ mn)	FY16	FY17	FY18E	FY19E	FY20E	(₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
Operating income	1,603	1,783	2,159	2,559	2,933	Liabilities					
EBITDA	130	201	262	335	413	Equity share capital	34	34	34	34	34
EBITDA margin	8.1%	11.3%	12.2%	13.1%	14.1%	Reserves	438	535	612	723	869
Depreciation	57	53	57	63	72	Net worth	473	569	646	758	903
EBIT	73	147	205	273	341	Minorities	25	-	-	-	-
Interest	60	57	58	56	55	Convertible debt	1	1	1	1	1
Operating PBT	13	90	147	217	286	Other debt	393	412	397	382	382
Other income	2	3	5	5	3	Total debt	394	413	398	383	383
Exceptional inc/(exp)	-	-	-	-	-	Deferred tax liability (net)	(5)	(2)	(2)	(2)	(2)
PBT	15	93	153	222	290	Total liabilities	886	980	1,042	1,138	1,284
Tax provision	22	31	50	73	96	Assets					
Minority interest	(9)	4	-	-	-	Net fixed assets	301	291	294	296	374
PAT (Reported)	2	58	102	149	194	Capital W/P	3	11	11	11	11
Less: Exceptionals	-	-	-	-	-	Total fixed assets	304	302	304	307	385
Adjusted PAT	2	58	102	149	194	Investments	22	25	25	25	25
Ratios						Current assets					
	FY16	FY17	FY18E	FY19E	FY20E	Inventory	225	235	266	315	362
Growth						Sundry debtors	537	588	674	781	878
Operating income (%)	(5.9)	11.2	21.1	18.5	14.6	Loans and advances	265	302	345	409	440
EBITDA (%)	15.1	54.3	30.8	27.8	23.1	Cash & bank balance	44	69	60	43	37
Adj PAT (%)	161.7	2,626.6	77.9	45.2	30.6	Marketable securities	-	-	-	-	-
Adj EPS (%)	161.7	2,626.6	77.9	45.2	30.6	Total current assets	1,071	1,194	1,346	1,549	1,717
Profitability						Total current liabilities	514	544	637	746	846
EBITDA margin (%)	8.1	11.3	12.2	13.1	14.1	Net current assets	557	650	709	803	871
Adj PAT Margin (%)	0.1	3.2	4.7	5.8	6.6	Intangibles/Misc. expenditure	4	3	3	3	3
RoE (%)	0.4	11.1	16.9	21.2	23.4	Total assets	886	980	1,042	1,138	1,284
RoCE (%)	8.4	15.9	20.3	25.0	28.1	Cash flow					
RoIC (%)	6.9	14.5	17.9	20.6	22.0	(₹ mn)	FY16	FY17	FY18E	FY19E	FY20E
Valuations						Pre-tax profit	15	93	153	222	290
Price-earnings (x)	918.6	33.7	18.9	13.0	10.0	Total tax paid	(28)	(28)	(50)	(73)	(96)
Price-book (x)	4.1	3.4	3.0	2.6	2.1	Depreciation	57	53	57	63	72
EV/EBITDA (x)	17.8	11.4	8.7	6.8	5.5	Working capital changes	(47)	(68)	(68)	(111)	(74)
EV/Sales (x)	1.4	1.3	1.1	0.9	0.8	Net cash from operations	(3)	50	92	101	192
Dividend payout ratio (%)	569.0	20.9	21.0	21.0	21.0	Cash from investments					
Dividend yield (%)	0.6	0.6	1.1	1.6	2.1	Capital expenditure	(47)	(51)	(60)	(65)	(150)
B/S ratios						Investments and others	(1)	(4)	-	-	-
Inventory days	63	61	57	58	59	Net cash from investments	(48)	(54)	(60)	(65)	(150)
Creditors days	85	81	80	80	80	Cash from financing					
Debtor days	109	109	104	102	100	Equity raised/(repaid)	-	-	-	-	-
Working capital days	104	107	100	99	95	Debt raised/(repaid)	24	19	(15)	(15)	-
Gross asset turnover (x)	2.7	2.9	3.2	3.5	3.5	Dividend (incl. tax)	(14)	(14)	(26)	(37)	(49)
Net asset turnover (x)	5.3	6.0	7.4	8.7	8.8	Others (incl. extraordinary)	3	25	-	(0)	-
Sales/operating assets (x)	5.2	5.9	7.1	8.4	8.5	Net cash from financing	13	29	(41)	(52)	(49)
Current ratio (x)	2.1	2.2	2.1	2.1	2.0	Change in cash position	(39)	25	(9)	(17)	(6)
Net debt-EBITDA (x)	0.8	0.7	0.6	0.5	0.4	Closing cash	44	69	60	43	37
Net debt/equity (x)	2.7	1.7	1.3	1.0	0.8	Half-yearly financials					
Interest coverage (EBITDA)	2.2	3.5	4.5	6.0	7.6	(₹ mn)	H1FY16	H2FY16	H1FY17	H2FY17	H1FY18
Interest coverage (EBIT)	1.2	2.6	3.6	4.9	6.3	Operating income	879	874	911	1,031	1,116
Per share						Change (h-o-h)	-9%	-1%	4%	13%	8%
	FY16	FY17	FY18E	FY19E	FY20E	EBITDA	58	70	87	113	125
Adj EPS (₹)	0.6	16.8	29.8	43.3	56.6	Change (h-o-h)	-34%	21%	25%	29%	12%
CEPS	17.2	32.3	46.5	61.5	77.5	EBITDA margin	6.6%	8.0%	9.6%	10.9%	11.3%
Book value	137.6	165.8	188.2	220.7	263.1	PAT	(12)	5	19	43	63
Dividend (₹)	3.5	3.5	6.3	9.1	11.9	Adj PAT	(3)	5	23	35	49
Actual o/s shares (mn)	3.4	3.4	3.4	3.4	3.4	Change (h-o-h)	-112%	-282%	389%	51%	40%
						Adj PAT margin	-0.3%	0.5%	2.5%	3.4%	4.4%
						Adj EPS	(0.7)	1.4	6.7	10.1	14.2

Source: CRISIL Research

CRISIL Research Team

Senior Director

Nagarajan Narasimhan	CRISIL Research	+91 22 3342 3540	nagarajan.narasimhan@crisil.com
----------------------	-----------------	------------------	--

Analytical Contacts

Prasad Koparkar	Senior Director, Industry & Customised Research	+91 22 3342 3137	prasad.koparkar@crisil.com
Jiju Vidyadharan	Senior Director, Funds & Fixed Income Research	+91 22 3342 8091	jiju.vidyadharan@crisil.com
Binaifer Jehani	Director, Customised Research	+91 22 3342 4091	binaifer.jehani@crisil.com
Manoj Damle	Director, Customised Research	+91 22 3342 3342	manoj.damle@crisil.com
Ajay Srinivasan	Director, Industry Research	+91 22 3342 3530	ajay.srinivasan@crisil.com
Rahul Prithiani	Director, Industry Research	+91 22 3342 3574	rahul.prithiani@crisil.com
Miren Lodha	Director, Data Business	+91 22 3342 1977	miren.lodha@crisil.com
Hetal Gandhi	Director, Research Execution	+91 22 33424155	hetal.gandhi@crisil.com

Business Development

Prosenjit Ghosh	Director, Industry & Customised Research	+91 99206 56299	prosenjit.ghosh@crisil.com
Megha Agrawal	Associate Director	+91 98673 90805	megha.agrawal@crisil.com
Dharmendra Sharma	Associate Director (North)	+91 98189 05544	dharmendra.sharma@crisil.com
Ankesh Baghel	Regional Manager (West)	+91 98191 21510	ankesh.baghel@crisil.com
Sonal Srivastava	Regional Manager (West)	+91 98204 53187	sonal.srivastava@crisil.com
Priyanka Murarka	Regional Manager (East)	+91 99030 60685	priyanka.murarka@crisil.com
Rupak Sharma	Regional Manager (Tamil Nadu & AP)	+91 84240 15517	rupak.sharma@crisil.com

About CRISIL Limited

CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are 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.

About CRISIL Research

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.

CRISIL Privacy

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at <https://www.spglobal.com/privacy>

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.

Disclaimer:

This SME Independent Equity Research Report (SME IER Report) has been sponsored by the National Stock Exchange of India Ltd. This SME IER Report is based on data publicly available or from sources considered reliable (together Data). CRISIL Research, division of CRISIL Ltd. (CRISIL) does not guarantee the accuracy, adequacy or completeness of the SME IER Report / Data and is not responsible for any errors or omissions or for the results obtained from the use of SME IER Report / Data. The Data / SME IER Report is subject to change without any prior notice. Opinions expressed herein are our current opinions as on the date of this SME IER Report. Nothing in this SME IER Report constitutes investment, legal, accounting or tax advice or any solicitation, whatsoever. The subscribers / users assume the entire risk of any use made of this Data / SME IER Report. CRISIL especially states that, it has no financial liability whatsoever, to the subscribers / users of this SME IER Report / Data. This SME IER Report / Data is for personal information of the authorised recipient in India only. The SME IER Report should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person – especially outside India or published or copied in whole or in part, for any purpose. However, CRISIL or its affiliates or other employees may have other commercial transactions with the company. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS.

Argentina | China | Hong Kong | India | Poland | Singapore | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

www.crisil.com | [@CRISILLimited](https://twitter.com/CRISILLimited) | [/CRISILLimited](https://www.facebook.com/CRISILLimited) | [/user/CRISILLimited](https://www.linkedin.com/company/CRISILimited)

CRISIL
An S&P Global Company