

Thejo Engineering Limited

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21st September, 2017

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 made a SME Independent equity research and the ratings of the Company as follows:

SME Fundamental Grade – 5/5 and
SME Valuation Grade – 2/5.

We are enclosing herewith the CRISIL SME Independent Equity Research Report for your information and records.

Kindly acknowledge receipt.

With thanks,
Yours truly,
For Thejo Engineering Limited,

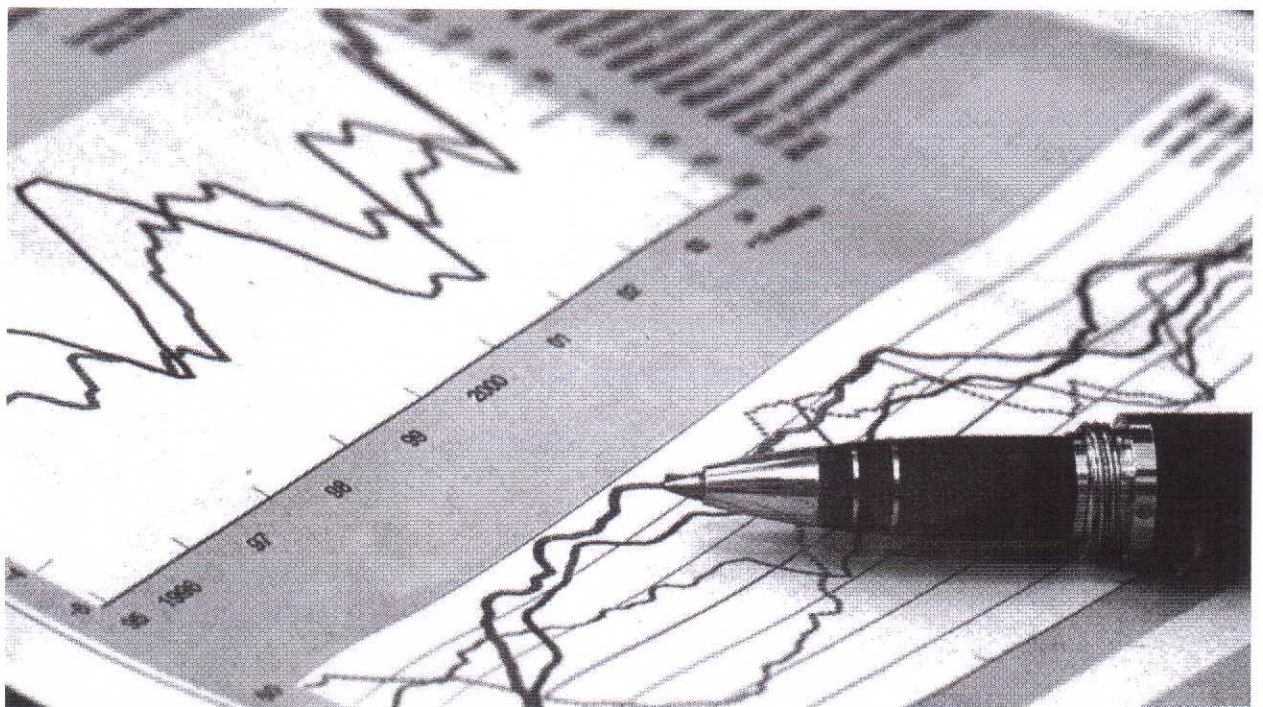

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CRISIL SME IER

Independent **E**quity **R**esearch

Enhancing investment decisions



Thejo Engineering Ltd

H2FY17 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)

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Thejo Engineering Ltd

September 14, 2017

Overseas business breaks even leading to margin expansion

SME Fundamental Grade: 5/5 (Excellent fundamentals)

SME Valuation Grade: 2/5 (CMP has downside)

Fair Value: ₹304

CMP: ₹348

Thejo Engineering Ltd's (Thejo's) H2FY17 consolidated results were above CRISIL Research's expectations. Revenue increased 17.9% y-o-y to ₹1,031 mn. The services segment's revenue (63% of sales) grew 11.1% y-o-y to ₹423 mn and the manufacturing segment's revenue (24%) rose 28.8% y-o-y. EBITDA margin expanded 293 bps y-o-y to 10.9% owing to better absorption of fixed cost along with healthy revenue growth. Owing to higher EBITDA, adjusted net profit increased to ₹35 mn from ₹5 mn in H2FY16. We expect the services and products divisions to continue to benefit from pick-up in domestic demand from steel and mining sectors in the near term, and sustained growth in its overseas operations. We maintain the SME fundamental grade of 5/5.

Overseas subsidiaries and exports led growth

Revenue from overseas subsidiaries and exports (~30% of total revenue), which jumped 53% y-o-y and 27% y-o-y. This growth was driven by demand for Thejo's products and services in Australia and new client wins in Saudi Arabia. Domestic growth was led by 19% y-o-y rise in product sales* (~28% of revenue), supported by demand from iron and steel companies. However, domestic services revenue (~37% of total revenue) fell 3% y-o-y as tepid demand from the mining sector continued. Going forward, 1) Australian production of iron ore, coking and thermal coal is expected to increase 2-3%[^] as supplies from other regions taper (owing to investments by miners); 2) new client orders in Saudi Arabia, Chile and Brazil, and 3) revival in Indian mining output are expected to drive Thejo's growth. We forecast revenue to grow at 14.2% CAGR over FY17-19E.

Breakeven at overseas subsidiaries aided margin expansion

EBITDA margin expanded 293 bps y-o-y as employee cost and other expenses declined 408 bps and 556 bps y-o-y, respectively. This is largely owing to better absorption of fixed costs with increase in revenue across its Indian and overseas operations. Overseas subsidiaries achieved breakeven, posting cumulative PAT of ₹9 mn in FY17 compared to a net loss of ₹65 mn in FY16. We expect operating leverage benefits to further lead to 180 bps expansion in EBITDA margin over FY17-19E to 12.1%.

Fair value increased to ₹304 per share

We have increased our FY18 earnings estimates and rolled forward our projections by one year to FY19. Consequently, the discounted cash flow (DCF)-based fair value is increased to ₹304 per share from ₹250. At the current market price of ₹348, our valuation grade is 2/5.

KEY FORECAST

(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Operating income	1,703	1,603	1,942	2,232	2,536
EBITDA	113	130	200	247	307
Adj net income	1	2	58	87	119
Adj EPS (₹)	0.2	0.6	16.8	25.3	34.8
EPS growth (%)	(97.6)	161.7	2,626.6	50.8	37.5
Dividend yield (%)	1.0	1.0	1.0	1.5	2.0
RoCE (%)	5.9	8.4	16.1	18.9	22.0
RoE (%)	0.2	0.4	11.3	15.4	19.1
PE (x)	1,536.0	586.9	21.5	14.3	10.4
P/BV (x)	2.4	2.6	2.3	2.1	1.8
EV/EBITDA (x)	13.5	12.4	8.0	6.8	5.5

NM: Not meaningful; CMP: Current market price;

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

[^]As forecasted by Department of Industry, Australia

Source: Company, CRISIL Research estimates

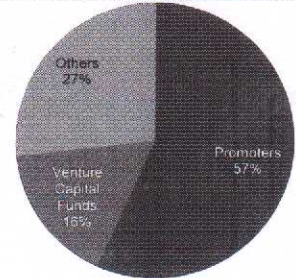
SME CFV MATRIX

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	10079
NSE EMERGE ticker	THEJO
Face value (₹ per share)	10
Shares outstanding (mn)	3.4
Market cap (₹ mn)/(US\$ mn)	1,240/19
Enterprise value (₹ mn)/(US\$ mn)	1,522/24
Free float (%)	43%

SHAREHOLDING PATTERN



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

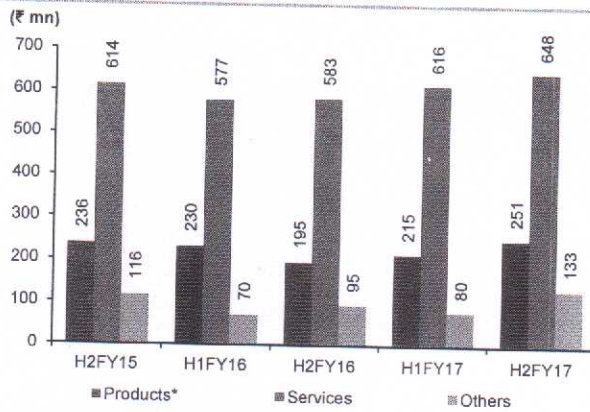
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

H2FY17 Results Summary (Consolidated)

(₹ mn)	H2FY17	H1FY17	H2FY16	h-o-h (%)	y-o-y (%)	FY17	FY16	y-o-y (%)
Operating Income	1,031	911	874	13.2	17.9	1,942	1,754	10.8
Raw material consumption	246	187	150	31.3	64.2	433	292	48.4
as % of Operating Income	23.8%	20.6%	17.1%	329bps	672bps	22.3%	16.6%	566bps
Employee costs	344	347	327	(0.9)	5.1	691	718	(3.7)
Other expenditure	328	289	327	13.7	0.4	617	615	0.4
EBIDTA	113	87	70	29.1	61.0	200	128	56.1
EBIDTA margin	10.9%	9.6%	8.0%	135bps	293bps	10.3%	7.3%	300bps
Depreciation	27	26	29	4.3	(6.1)	53	57	(5.9)
EBIT	86	61	41	39.7	108.5	147	72	105.3
Interest	30	28	32	7.0	(8.6)	57	60	(4.8)
Other Income	1	2	2	(33.3)	(32.9)	3	4	(7.4)
PBT	57	36	11	61.1	439.9	93	15	524.0
Tax	14	17	6	(13.1)	159.8	31	22	39.9
Reported PAT	43	19	5	126.2	748.4	62	(7)	(941.7)
Minority Interest	8	(4)	0	(304.5)	2,159.7	4	(9)	(144.2)
Adjusted PAT after MI	35	23	5	51.1	639.3	58	2	2,624.5
Adjusted PAT margin	3.4%	2.5%	0.5%	84bps	282bps	3.0%	0.1%	284bps
No. of equity shares (mn)	3.4	3.4	3.4	-	-	3.4	3.4	-
Adjusted EPS	10.1	6.7	1.4	51.1	639.3	16.8	0.6	2,624.5

Source: Company, CRISIL Research

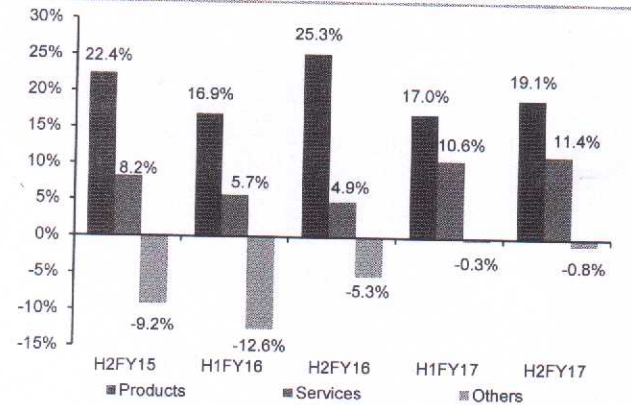
Segmental revenue



*Net of inter-segment sales

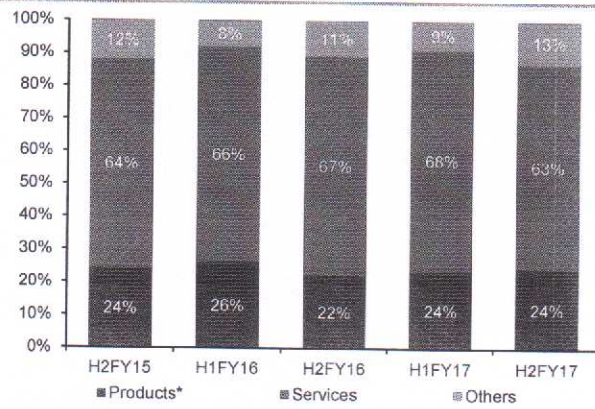
Source: Company, CRISIL Research

Segmental EBIT margin trend



Source: Company, CRISIL Research

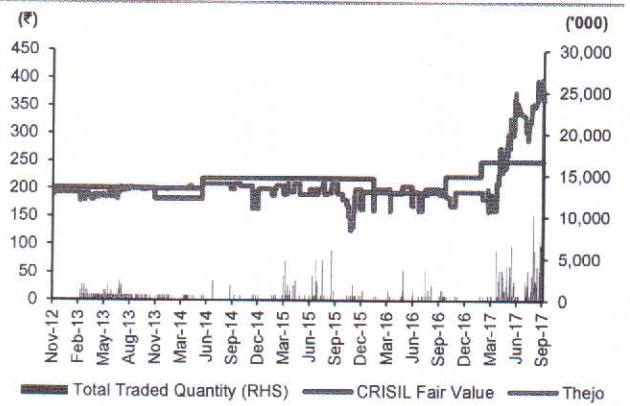
Revenue mix



*Net off inter-segment sales

Source: Company, CRISIL Research

Fair value and share price movement



Source: NSE, CRISIL Research

Estimate change table

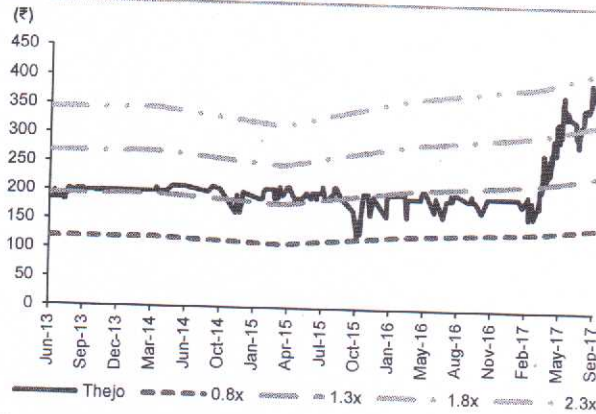
₹ mn)	Earlier	FY18E		FY19E Introduced
		Now	change	
Revenue	2,133	2,232	5%	2,536
EBITDA	209	247	18%	307
EBITDA margin	9.8%	11.1%	126bps	12.1%
PAT	57	87	53%	119
PAT margin	2.7%	3.9%	123bps	4.7%

Valuation

Grade: 2/5

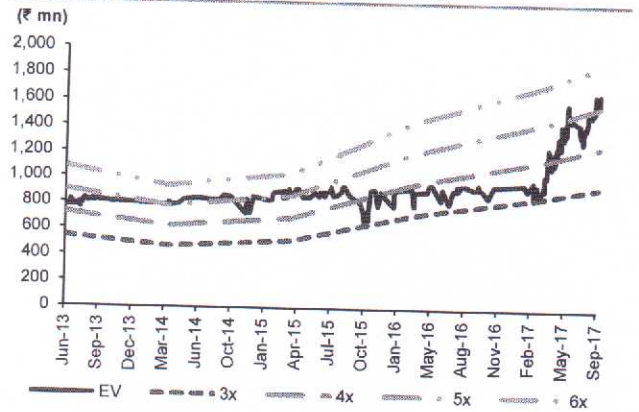
We have increased our FY18 earnings estimates and rolled forward our projections by one year. Consequently, our discounted cash flow (DCF)-based fair value is increased to ₹304 per share from ₹250. The fair value implies P/B multiple of 1.6x on FY19E book value per share. At the current market price of ₹348, our valuation grade is 2/5.

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 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

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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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