

Thejo Engineering Limited

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24th October, 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 H2FY18 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 (H2FY18 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 'K.J. JOSEPH', with a long horizontal flourish extending to the right.

K.J. JOSEPH
CHAIRMAN
DIN: 00434410

CRISIL SME IER

Independent Equity Research

Enhancing investment decisions



Thejo Engineering Ltd

H2FY18 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

October 19, 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: ₹537

Thejo Engineering Ltd's (Thejo's) H2FY18 consolidated revenue was in line with but earnings were above CRISIL Research's expectations. Revenue increased 23.8% y-o-y to ₹1,188 mn, driven by Indian services and overseas businesses. EBITDA margin expanded 58 bps y-o-y to 12.3%. Led by higher EBITDA, adjusted net profit after minority interest jumped 78.6% y-o-y to ₹62 mn. Going forward, we expect the company's Indian products and services divisions to benefit from healthy growth in demand from the steel and mining sectors. Further, its overseas subsidiaries are expected to post healthy growth on the back of steady order flows from its key markets. We maintain the SME fundamental grade of 5/5.

Domestic business led by the services segment

Indian operations (~58% of overall revenue) posted healthy growth of ~16% y-o-y during H2FY18, largely driven by domestic services (~37% of overall sales in H2FY18), which grew 27% y-o-y. This was on the back of healthy demand from the steel and power segments. Manufacturing products sales, on the other hand, inched up just 2% y-o-y. With major sectors such as steel and mining expected to post healthy volume growth over the next few quarters, Thejo, with a well-diversified clientele in these sectors, is likely to be a key beneficiary. We forecast its Indian business to grow at 13% CAGR over FY18-20E.

Overseas operations to continue growth momentum

Thejo's overseas business (~38% of overall sales) grew a robust 45% y-o-y, aided by repeat orders in its Australian operations – both product exports and services. Further, the company's Chile operations witnessed significant traction with new orders from major mining companies in the country; revenue increased ~10x over FY16-18. Going forward, Australian mining output for key minerals, such as iron ore, and metallurgical coal is likely to grow steadily over the next few quarters, as per the Department of Industries, Australia. This is expected to help the company post healthy revenue growth in this market. Further, repeat orders in Saudi Arabia and Chile are likely to further boost its overseas operations. However, in the absence of major one-time order gains in the near term, growth is likely to be lower than the high of 36% y-o-y in FY18. We forecast its overseas operations to grow at a healthy 17% CAGR over FY18-20E.

Operating leverage at overseas subsidiaries aided margin expansion

EBITDA margin expanded 58 bps y-o-y to 12.3%, largely owing to lower raw material costs as a percentage of sales. Operating leverage benefits stemming from growth in the domestic and overseas businesses are expected to drive margin expansion of 150 bps over FY18-20E to 14.1%. Driven by revenue growth and margin expansion, adjusted PAT is forecast to increase at 36% CAGR over FY18-20E.

Fair value maintained at ₹580 per share

We have broadly maintained our FY19 and FY20 earnings estimates. Consequently, our discounted cash flow (DCF)-based fair value is unchanged at ₹580 per share. At the current market price of ₹537, our valuation grade is 3/5.

KEY FORECAST

(₹ mn)	FY16	FY17	FY18	FY19E	FY20E
Operating income	1,603	1,783	2,200	2,612	2,973
EBITDA	130	201	278	342	419
Adj net income	2	58	111	159	206
Adj EPS (₹)	0.6	16.8	32.2	46.3	59.9
EPS growth (%)	161.7	2,626.6	92.0	43.8	29.4
Dividend yield (%)	0.7	0.7	0.7	1.8	2.3
RoCE (%)	8.3	16.1	23.1	27.1	30.0
RoE (%)	0.4	11.3	18.5	22.5	24.4
PE (x)	872.6	32.0	16.7	11.6	9.0
P/BV (x)	3.9	3.4	2.8	2.4	2.0
EV/EBITDA (x)	17.0	11.0	7.7	6.3	5.2

NM: Not meaningful; CMP: Current market price;

Source: Company, CRISIL Research estimates

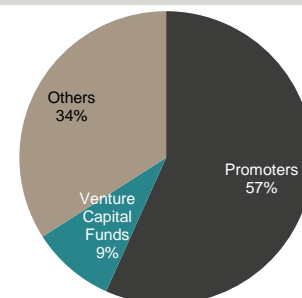
SME CFV MATRIX

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	10453
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

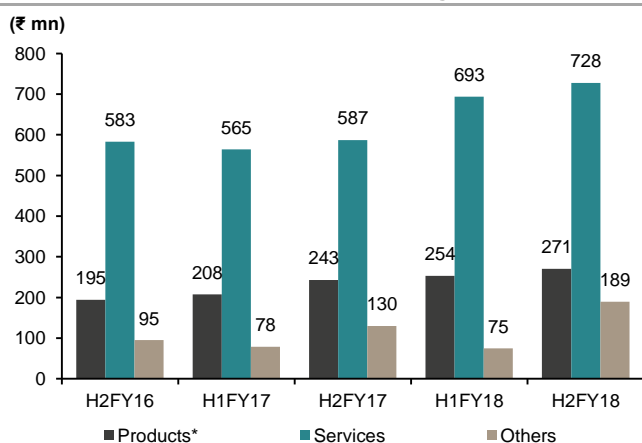


H2FY18 results summary (consolidated)

(₹ mn)	H2FY18	H1FY18	H2FY17	h-o-h (%)	y-o-y (%)	FY18	FY17	y-o-y (%)
Operating Income	1,188	1,022	960	16.3	23.8	2,209	1,810	22.0
Raw material consumption	299	234	246	27.6	21.6	533	433	23.1
as % of Operating income	25.2%	22.9%	25.6%	224bps	-45bps	24.1%	23.9%	21bps
Employee costs	399	383	344	4.2	15.9	782	691	13.1
Other expenditure	343	278	257	23.5	33.7	621	485	28.0
EBITDA	147	126	113	16.1	29.9	273	200	36.3
EBITDA margin	12.3%	12.4%	11.8%	-2bps	58bps	12.4%	11.1%	129bps
Depreciation	29	25	27	19.4	8.0	54	53	1.3
EBIT	117	102	86	15.3	36.9	219	147	49.0
Interest	28	28	30	2.0	(4.9)	56	57	(2.6)
Other Income	2	5	1	(53.4)	80.9	8	3	127.7
PBT	91.4	79.3	57.3	15.3	59.6	171	93	83.8
Tax	23	17	14	40.0	60.2	40	31	27.7
Reported PAT	68	63	43	8.8	59.4	131	62	112.1
Minority Interest	6	14	8	(54.7)	(22.0)	20	4	389.7
Adjusted PAT after MI	62	49	35	27.2	78.6	111	58	92.0
Adjusted PAT margin	5.2%	4.8%	3.6%	45bps	160bps	5.0%	3.2%	182bps
No. of equity shares (mn)	3.4	3.4	3.4	-	-	3.4	3.4	-
Adjusted EPS (₹)	18.0	14.2	10.1	27.2	78.6	32.2	16.8	92.0

Source: Company, CRISIL Research

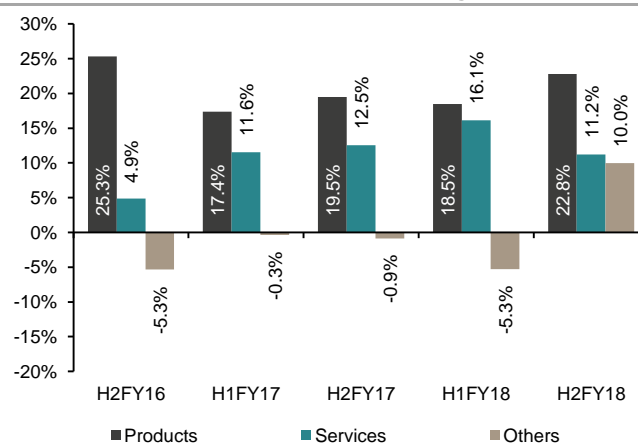
Domestic product sales drive revenue growth



*Net of inter-segment sales

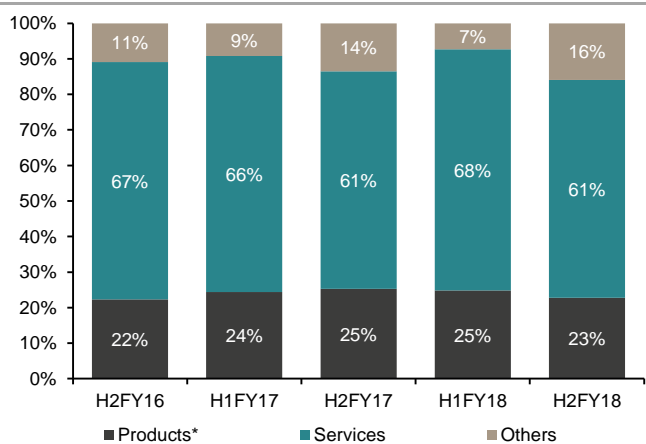
Source: Company, CRISIL Research

Overseas operations drive services margin expansion



Source: Company, CRISIL Research

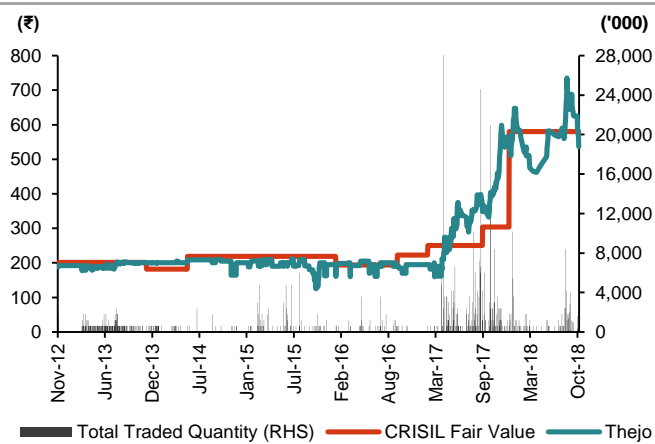
Revenue mix



*Net off inter-segment sales

Source: Company, CRISIL Research

Fair value and share price movement



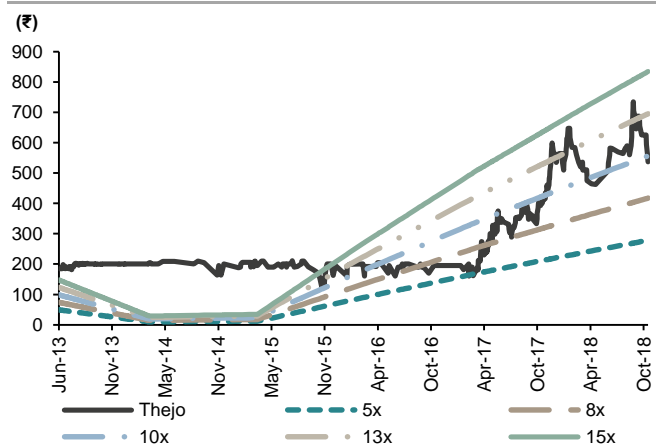
Source: NSE, CRISIL Research

Valuation

Grade: 3/5

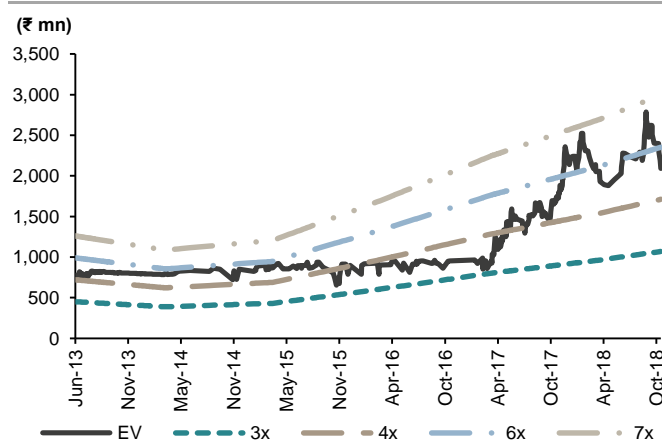
We have broadly maintained our FY18 and FY19 earnings estimates. Consequently, our DCF-based fair value is unchanged at ₹580 per share. This value implies P/E multiples of 12.5x FY19E EPS and 9.7x FY20E EPS. At the current market price of ₹537, our valuation grade is 3/5.

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
19-Oct-18	H2FY18 Result update	5/5	₹580	3/5	₹537

Annexure: Financials (Consolidated)

Income statement						Balance Sheet					
(₹ mn)	FY16	FY17	FY18	FY19E	FY20E	(₹ mn)	FY16	FY17	FY18	FY19E	FY20E
Operating income	1,603	1,783	2,200	2,612	2,973	Liabilities					
EBITDA	130	201	278	342	419	Equity share capital	34	34	34	34	34
EBITDA margin	8.1%	11.3%	12.6%	13.1%	14.1%	Reserves	441	510	613	732	887
Depreciation	57	53	54	60	65	Net worth	476	544	647	767	921
EBIT	73	147	224	283	354	Minorities	22	25	45	45	45
Interest	60	57	56	50	50	Convertible debt	1	1	1	1	1
Operating PBT	13	90	168	233	304	Other debt	393	412	333	333	333
Other income	2	3	3	5	3	Total debt	394	413	334	334	334
Exceptional inc/(exp)	-	-	-	-	-	Deferred tax liability (net)	(5)	(2)	(4)	(4)	(4)
PBT	15	93	171	237	307	Total liabilities	886	980	1,023	1,142	1,297
Tax provision	22	31	40	78	101	Assets					
Minority interest	(9)	4	20	-	-	Net fixed assets	301	291	319	324	324
PAT (Reported)	2	58	111	159	206	Capital WIP	3	11	13	13	13
Less: Exceptionals	-	-	-	-	-	Total fixed assets	304	302	332	337	337
Adjusted PAT	2	58	111	159	206	Investments	22	25	22	22	22
						Current assets					
						Inventory	225	235	256	303	345
						Sundry debtors	537	588	653	752	840
						Loans and advances	265	302	161	209	297
						Cash & bank balance	44	69	79	56	59
						Marketable securities	-	-	-	-	-
						Total current assets	1,071	1,194	1,148	1,319	1,541
						Total current liabilities	514	544	482	539	606
						Net current assets	557	650	667	781	935
						Intangibles/Misc. expenditure	4	3	3	3	3
						Total assets	886	980	1,023	1,142	1,297
						Cash flow					
						(₹ mn)	FY16	FY17	FY18	FY19E	FY20E
						Pre-tax profit	15	93	171	237	307
						Total tax paid	(28)	(28)	(42)	(78)	(101)
						Depreciation	57	53	54	60	65
						Working capital changes	(47)	(68)	(6)	(138)	(151)
						Net cash from operations	(3)	50	177	81	120
						Cash from investments					
						Capital expenditure	(47)	(51)	(84)	(65)	(65)
						Investments and others	(1)	(4)	3	-	-
						Net cash from investments	(48)	(54)	(80)	(65)	(65)
						Cash from financing					
						Equity raised/(repaid)	-	-	-	-	-
						Debt raised/(repaid)	24	19	(78)	-	-
						Dividend (incl. tax)	(14)	(14)	(14)	(40)	(51)
						Others (incl extraordinary)	3	25	7	(0)	-
						Net cash from financing	13	29	(86)	(40)	(51)
						Change in cash position	(39)	25	11	(24)	3
						Closing cash	44	69	79	56	59
						Half-yearly financials					
						(₹ mn)	H2FY16	H1FY17	H2FY17	H1FY18	H2FY18
						Operating income	874	851	960	1,022	1,188
						Change (h-o-h)	-1%	-3%	13%	6%	16%
						EBITDA	70	87	113	126	147
						Change (h-o-h)	21%	25%	29%	12%	16%
						EBITDA margin	8.0%	10.3%	11.8%	12.4%	12.3%
						PAT	5	19	43	63	68
						Adj PAT	5	23	35	49	62
						Change (h-o-h)	-282%	389%	51%	40%	27%
						Adj PAT margin	0.5%	2.7%	3.6%	4.8%	5.2%
						Adj EPS	1.4	6.7	10.1	14.2	18.0

Source: CRISIL Research

Research

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Senior Director

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About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It 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.

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 large network 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 judgments 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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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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