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December 27, 2018

Mr. V. A. George
Managing Director
Thejo Engineering Limited
41, Cathedral Road,
VDS House
Chennai - 600086
Tel: 044 42221900

Dear Mr. V. A. George,

Re: Review of CRISIL Ratings on the bank facilities of Thejo Engineering Limited

All ratings assigned by CRISIL are kept under continuous surveillance and review.

Please find in the table below the ratings outstanding for the debt instruments/facilities of the company, and the rating actions by CRISIL on the ratings as on date.

Total Bank Loan Facilities Rated	**Rs.100 Crore**
Long-Term Rating	**CRISIL BBB+/Stable (Upgraded from CRISIL BBB/Positive)**
Short-Term Rating	**CRISIL A2 (Upgraded from CRISIL A3+)**

(Bank-wise details as per Annexure 1)

As per our Rating Agreement, CRISIL would disseminate the ratings, along with the outlook, through its publications and other media, and keep the ratings, along with the outlook, under surveillance over the life of the instrument/facility. CRISIL reserves the right to withdraw, or revise the ratings, along with the outlook, at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL believes may have an impact on the ratings.

In the event of the company not availing the proposed facilities within a period of 180 days from the date of this letter, a fresh letter of revalidation from CRISIL will be necessary.

Should you require any clarifications, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Sameer Charania
Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

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Annexure 1 - Bank-wise details of various facility classes (outstanding facilities)

S.No.	Bank Facility	Bank	Amount (Rs. in Crore)	Outstanding Rating
1	Bank Guarantee	State Bank of India	7.0	CRISIL A2
2	Bank Guarantee	Axis Bank Limited	5.25	CRISIL A2
3	Bank Guarantee	The South Indian Bank Limited	5.25	CRISIL A2
4	Cash Credit	Axis Bank Limited	14.33	CRISIL BBB+/Stable
5	Cash Credit	State Bank of India	19.1	CRISIL BBB+/Stable
6	Cash Credit	The South Indian Bank Limited	14.32	CRISIL BBB+/Stable
7	Letter of Credit	The South Indian Bank Limited	3.75	CRISIL A2
8	Letter of Credit	State Bank of India	5.0	CRISIL A2
9	Letter of Credit	Axis Bank Limited	3.75	CRISIL A2
10	Long Term Loan	State Bank of India	1.4	CRISIL BBB+/Stable
11	Long Term Loan	Axis Bank Limited	2.07	CRISIL BBB+/Stable
12	Proposed Long Term Bank Loan Facility	Proposed	3.0	CRISIL BBB+/Stable
13	Proposed Short Term Bank Loan Facility	Proposed	2.78	CRISIL A2
14	Standby Letter of Credit	State Bank of India	13.0	CRISIL A2
	Total		**100.0**	

1-3, 7-9. Two-way Interchangeability between LC & BG

Rating Rationale

December 26, 2018 | Mumbai

Thejo Engineering Limited

Ratings upgraded to 'CRISIL BBB+/Stable/CRISIL A2'

Rating Action

Total Bank Loan Facilities Rated	**Rs.100 Crore**
Long Term Rating	**CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Positive')**
Short Term Rating	**CRISIL A2 (Upgraded from 'CRISIL A3+')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL has upgraded its ratings on the bank facilities of Thejo Engineering Limited (TEL) to '**CRISIL BBB+/Stable/CRISIL A2**' from 'CRISIL BBB/Positive/CRISIL A3+'.

The upgrade reflects CRISIL's belief that TEL will sustain the improvement in credit risk profile driven by steady revenue growth and sustenance of improved margins, and strengthening of financial risk profile given the higher cash generation and moderate capital expenditure (capex) plans.

TEL's revenues are expected to register a 6-8% compound annual growth rate over the medium term, while operating profitability will remain healthy at 12-13%. The company's large presence in the operations and maintenance (O&M) segment, and scaling up of orders in the manufacturing division should ensure steady revenue visibility. Besides, measures to improve share from higher margin products and service offerings, and stabilisation in subsidiaries may help sustain the improvement in profitability, which increased to 13.5% in the first six months of fiscal 2019, compared with 11.3% in the corresponding period the previous year.

The company has planned moderate capex of Rs 4-5 crore per annum over the medium term. Expected annual cash accrual of more than Rs 20 crore expected over the medium term should be adequate to meet moderate capital expenditure (capex) and modest debt obligations, and support incremental working capital requirements. Gearing is likely to improve to less than 0.30 time from 0.48 time as on March 31, 2018. Debt protection metrics are also expected to improve further.

The ratings continue to reflect TEL's established position in the material handling segment, diverse revenue profile, and adequate financial risk profile. These strengths are partially offset by modest scale of operations, susceptibility to risks related to cyclical demand in end-user segments, and working-capital-intensive operations.

Analytical Approach
To arrive at the ratings, CRISIL has combined the business and financial risk profiles of TEL and its subsidiaries: Thejo Hatcon Industrial Services Company, Saudi Arabia (Thejo Hatcon), Thejo Australia Pty Ltd (Thejo Australia), Thejo Brasil Comercio E Servicos Ltda, Brazil (Thejo Brazil) and Thejo Engineering Latinoamerica SpA, Chile (Thejo Chile). This is because the entities, collectively referred to as the Thejo group, have strong operational linkages and fungible cash flows.

Please refer Annexure - Details of consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description
Strengths
*** Established position and diversified revenue profile**
The company is among a handful of recognised players in the organised services segment in India, and has a leading market position in the domestic conveyor services market. Furthermore, having started as a services company, TEL has gradually diversified its revenue profile by expanding into selling of related products. Currently, sales from the conveyor services segment contributes around 51% to total revenue, and the products segment accounts for the remaining 49%. Diversity is further supported by the export presence, both directly and through subsidiaries.

*** Adequate financial risk profile**
Financial risk profile is marked by healthy capital structure and adequate debt protection metrics. Gearing improved to 0.48 time as on March 31, 2018, from 0.73 time as on March 31, 2017, due to improvement in networth as the subsidiaries in Saudi Arabia and Australia are contributing positively. Debt protection metrics are also adequate, with interest coverage and net cash accrual to total debt ratios of more than 5 times and over 0.5 time, respectively, in fiscal 2018. Credit metrics are expected to improve further given the expectation of improving cash generation and moderate capex spend.

Weakness
*** Moderate scale of operations and cyclicality in end user segments**
Although TEL is an established player in its niche product segments, it is still a moderate player, compared with larger players in the overall engineering segment, including McNally Bharat Engineering Company Ltd and Elecon Engineering Company, which offer a broader range of services.

Furthermore, the end users are present in cyclical industries, thereby exposing operations to the risk of sluggish demand during an economic slowdown, particularly if the clients defer capex or scale down production. Additionally, since the clients are large players, bargaining power and ability to collect receivables on time may be constrained in times of uncertain economic environment.

*** Working-capital-intensive operations**
Working capital requirements are large, with high gross current assets of around 190 days as on March 31, 2018, primarily driven by

debtors of around 110 days. Debtors are high given the company's presence in the engineering industry and exposure to large clients, including government-owned entities. However this is partly offset by availability of healthy credit from suppliers. Nevertheless, given then inherent working capital intensity, prudent management will remain critical.

Outlook: Stable
CRISIL believes TEL will benefit over the medium term from its healthy market position, steady revenue visibility, and increasing contributions from subsidiaries, leading to improved cash generation. Financial risk profile should strengthen in the absence of any significant debt-funded capex. The outlook may be revised to 'Positive' if a sustained and significant improvement in revenue, and stable operating margin strengthen key credit metrics. The outlook may be revised to 'Negative' if a steep decline in revenue and profitability, because of demand pressures, any significant debt-funded capex or acquisition, or stretch in working capital cycle weakens financial risk profile.

Liquidity
TEL enjoys healthy liquidity driven by expected cash accrual of over Rs 20 crore per annum in fiscals 2019 and 2020. TEL also has access to fund-based limits of Rs 42 crore, utilised at an average of 60% over the 10 months. The company has long-term repayment obligation of around Rs 6 crore and Rs 2 crore in fiscals 2019 and 2020, respectively, with capex of around Rs 4-5 annually. The company can completely fulfill its repayment obligation and capex requirements through internal accrual. Bank lines are expected to meet the incremental working capital requirement, which are assessed to be moderate.

About the Company
Incorporated in 1986, Chennai-based TEL provides installation and O&M services for conveyor belt systems and also designs, manufactures, and supplies a wide variety of rubber and polyurethane products for belt cleaning, spillage control, enhanced flow of material, impact and abrasion protection, screening, and rubber and polyurethane linings. In India, TEL has five manufacturing units (all located near Chennai), 11 branch offices, and 36 site offices located across 14 states.

Outside India, TEL operates in Saudi Arabia, Australia, Brazil, and Chile through its subsidiaries. TEL holds 51% equity stake in Thejo Hatcon; with the balance 49% being held by Bahrain-based Hatcon Industrial Services Company. TEL holds 74% equity stake in Thejo Australia with Japan-based Bridgestone Corporation (a global tyre and rubber company), through its subsidiary (Bridgestone Earth Movers Tyres Pty Ltd, Australia), holding the balance 26% equity stake. Thejo Brazil and Thejo Chile, in which TEL holds 99.99% and 99.73% stake, respectively, were set up in September 2014 and November 2014 and began operations in fiscal 2016. Thejo Brazil and Thejo Chile primarily sell bulk material handling products.

TEL is promoted by Mr K J Joseph and Mr Thomas John, who started the company to provide servicing operations to conveyor belt systems. The promoters' sons hold board and key management positions in the company. Since 2008, overall management is being led by a professional managing director, Mr V A George, who has experience of over 30 years in corporate and banking sectors.

For the first six months of fiscal 2019, on a consolidated basis, TEL reported a profit after tax (PAT) of Rs. 7.7 Cr on operating income of Rs. 117 Cr, as against a PAT of Rs. 6.3 Cr on operating income of Rs. 102 Cr during the previous corresponding period.

Key Financial Indicators (Consolidated)

Particulars	Unit	2018	2017
Revenue	Rs crore	220	178
Profit after tax (PAT)	Rs crore	13	6
PAT margin	%	6	3.5
Adjusted debt/ adjusted networth	Times	0.48	0.73
Interest coverage	Times	5.02	3.55

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Bank Guarantee*	NA	NA	NA	17.5	CRISIL A2
NA	Cash Credit	NA	NA	NA	47.75	CRISIL BBB+/Stable
NA	Letter of Credit*	NA	NA	NA	12.5	CRISIL A2
NA	Standby Letter of Credit	NA	NA	NA	13.0	CRISIL A2
NA	Long term loan	NA	NA	31-Oct-2021	2.07	CRISIL BBB+/Stable
NA	Long term loan	NA	NA	30-Nov-2021	1.4	CRISIL BBB+/Stable
NA	Proposed Long-Term Bank Loan Facility	NA	NA	NA	3.0	CRISIL BBB+/Stable
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	2.78	CRISIL A2

** Two-way Interchangeability between LC & BG*

Annexure - Details of Consolidation with MEIPL

Fully consolidated entities:
Thejo Hatcon Industrial Services Company, Saudi Arabia
Thejo Australia Pty Ltd, Australia
Thejo Brasil Comercio E Servicos Ltda, Brazil
Thejo Engineering Latinoamerica SpA, Chile

Annexure - Rating History for last 3 Years

	Current	2018 (History)	2017	2016	2015	Start of 2015

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	57.00	CRISIL BBB+/Stable/ CRISIL A2	06-03-18	CRISIL BBB/Positive/ CRISIL A3+	10-08-17	CRISIL BBB/Stable	05-05-16	CRISIL BBB/Negative	30-03-15	CRISIL BBB/Stable	CRISIL BBB/Stable
Non Fund-based Bank Facilities	LT/ST	43.00	CRISIL A2	06-03-18	CRISIL A3+	10-08-17	CRISIL A3+	05-05-16	CRISIL A3+	30-03-15	CRISIL A3+	CRISIL A3+

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Bank Guarantee**	**17.5**	**CRISIL A2**	**Bank Guarantee***	**17.5**	**CRISIL A3+**
Cash Credit	**47.75**	**CRISIL BBB+/Stable**	**Cash Credit**	**45.75**	**CRISIL BBB/Positive**
Letter of Credit**	**12.5**	**CRISIL A2**	**Foreign Currency Term Loan**	**3.8**	**CRISIL BBB/Positive**
Long Term Loan	**3.47**	**CRISIL BBB+/Stable**	**Letter of Credit**	**12.5**	**CRISIL A3+**
Proposed Long Term Bank Loan Facility	**3**	**CRISIL BBB+/Stable**	**Long Term Loan**	**5.08**	**CRISIL BBB/Positive**
Proposed Short Term Bank Loan Facility	**2.78**	**CRISIL A2**	**Proposed Short Term Bank Loan Facility**	**2.37**	**CRISIL A3+**
Standby Letter of Credit	**13**	**CRISIL A2**	**Standby Letter of Credit**	**13**	**CRISIL A3+**
Total	**100**	**--**	**Total**	**100**	**--**

** Interchangeable with letter of credit*
*** Two-way Interchangeability between LC & BG*

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Engineering Sector
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
Saman Khan Media Relations **CRISIL Limited** D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com **Naireen Ahmed** Media Relations **CRISIL Limited** D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com **Vinay Rajani** Media Relations **CRISIL Limited** D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-crisil.com	**Anuj Sethi** Senior Director - CRISIL Ratings **CRISIL Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com **Sameer Charania** Director - CRISIL Ratings **CRISIL Limited** D:+91 22 4097 8205 sameer.charania@crisil.com **Rehan Ahmed** Rating Analyst - CRISIL Ratings **CRISIL Limited** D:+91 44 6656 3140 Rehan.Ahmed@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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