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September 25, 2020

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.112.5 Crore**
Long-Term Rating	**CRISIL A-/Stable (Upgraded from CRISIL BBB+/Positive)**
Short-Term Rating	**CRISIL A2+ (Upgraded from CRISIL A2)**

(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

Rating Rationale

September 25, 2020 | Mumbai

Thejo Engineering Limited

Ratings upgraded to 'CRISIL A-/Stable/CRISIL A2+'

Rating Action

Total Bank Loan Facilities Rated	**Rs.112.5 Crore**
Long Term Rating	**CRISIL A-/Stable (Upgraded from 'CRISIL BBB+/Positive')**
Short Term Rating	**CRISIL A2+ (Upgraded from 'CRISIL A2')**

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 A-/Stable/CRISIL A2+**' from 'CRISIL BBB+/Positive/CRISIL A2'.

The upgrade reflects CRISIL's belief that improvement in TEL's business risk profile will be sustained over the medium term aided by increase in scale of operations in the Australian subsidiary, steady revenue from the services and operations and maintenance (O&M) segments and healthy profitability, even as Covid-19 will moderately impact domestic revenue in fiscal 2021. The financial risk profile is likely to remain healthy given prudent working capital management and moderate capital expenditure (capex) plans.

TEL's revenue grew by 32% in fiscal 2020 driven by strong performance in Thejo Australia Pty Ltd (Thejo Australia), where sales rose to about Rs 90 crore from Rs 30 crore in fiscal 2019. Consolidated profitability also improved to 16.3% in fiscal 2020 from 14.0% in fiscal 2019. The pandemic will have a moderate impact on domestic revenue in fiscal 2021, particularly in the product segment. Nevertheless, the sizeable share of services and O&M in domestic operations should support the business. Besides, stable revenue from the Australian subsidiary's annual contract with M/s Bridgestone Mining Solutions Australia Pty Ltd will benefit consolidated performance. Revenue is thus expected to be Rs 290-300 crore in fiscal 2021. Operating profitability will remain stable at 14-15% over the medium term, leading to higher cash generation.

The financial risk profile is expected to strengthen over the medium term with healthy accrual of over Rs 30 crore, which will comfortably cover capex of Rs 3-5 crore per fiscal and working capital requirement. Gearing is thus expected to improve to less than 0.25 time, from 0.32 time as on March 31, 2020.

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

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, 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 - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

*** Established position and diversified revenue**

TEL 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, it has gradually diversified its revenue by expansion into sale of related products. Currently, at a consolidated level, sales from the conveyor services segment contribute 72% to total revenue, and the products segment accounts for the remaining. The revenue diversity is further supported by export, both directly and through subsidiaries.

*** Healthy financial risk profile**

The financial risk profile is backed by healthy capital structure and debt protection metrics. Gearing continues to improve, and was 0.32 time as on March 31, 2020, against 0.37 time as on March 31, 2019. This is due to improvement in networth as the subsidiaries in Saudi Arabia and Australia are contributing positively. Debt protection metrics are also healthy, with interest coverage and net cash accrual to total debt ratios at more than 10 times and over 0.9 time, respectively, in fiscal 2020. The credit metrics should improve further given the expectation of improving cash generation and moderate capex spend.

Weaknesses

*** Moderate scale of operations and susceptibility to cyclicality in end-user segments**

Although TEL is an established player in its niche product segments, its scale remains moderate, compared with larger players in the engineering segment.

Furthermore, end-user industries are cyclical, exposing TEL's operations to the risk of sluggish demand during an economic slowdown, particularly if clients defer capex or scale down production. Additionally, as the clients are large players, bargaining power and ability to collect receivables on time may be constrained during an uncertain economic environment.

*** Large working capital requirement**
Operations are working capital intensive, as reflected in high gross current assets of over 200 days as on March 31, 2020, driven by receivables of 122 days. Receivables are sizeable given the company's presence in the engineering industry and exposure to large clients, including government-owned entities. However, this is partly offset by healthy credit from suppliers. Nevertheless, given the inherent large working capital requirement, its prudent management will remain critical.

Liquidity Strong
TEL enjoys strong liquidity driven by expected cash accrual of more than Rs 30 crore each in fiscals 2021 and 2022 and cash and equivalent of Rs 28 crore as on March 31, 2020. Fund-based limit of Rs 46 crore was utilised around 20% on average over the 12 months through August 2020. The company has term debt obligation of around Rs 10 crore and Rs 6 crore in fiscals 2021 and 2022, respectively, with annual capex of Rs 3-5 crore. Internal accrual will comfortably cover debt obligation and capex requirement. With gearing of 0.32 time as on March 31, 2020, TEL has sufficient headroom to raise additional debt if required. Bank lines are expected to cover incremental working capital requirement.

Outlook: Stable
TEL will continue to benefit from healthy orders, steady operating margin and healthy financial risk profile over the medium term.

Rating Sensitivity factors
Upward factors
* Increase in revenue while maintaining healthy profitability, leading to sustained annual accrual in excess of Rs 40 crore
* Sustenance of healthy financial risk profile

Downward factors
* Decline in revenue or operating profitability, impacting cash generation
* Large, debt-funded capex or significant stretch in the working capital cycle, leading to increase in gearing above 1.2 times

About the Company
Incorporated in 1986 and based in Chennai, TEL provides installation and O&M services for conveyor belt systems. It 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 near Chennai), 11 branch offices and 36 site offices in 10 states. TEL has a DSIR registered in-house R&D centre at Chennai.

Outside India, TEL operates in Saudi Arabia (Thejo Hatcon Industrial Services Company), Australia (Thejo Australia Pty Ltd), Brazil (Thejo Brasil Comercio E Servicos Ltda) and Chile (Thejo Engineering Latinoamerica SpA) through its subsidiaries. TEL holds 51% equity stake in Thejo Hatcon, with 49% being held by Bahrain-based Hatcon Industrial Services Company. TEL holds 74% equity stake in Thejo Australia, while Japan-based Bridgestone Corporation (a global tyre and rubber company), through its subsidiary (Bridgestone Mining Solution Australia Pty Ltd, Australia), holds the remaining 26%. In Thejo Brazil and Thejo Chile, TEL holds 99.99% and 99.80% stake, respectively. 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. TEL is the first company to be listed on EMERGE - SME Exchange of the NSE. It has a diversified Board with a majority of Independent Directors. Since 2008, overall management is being led Mr V A George, managing director, who has experience of more than three decades in corporate and banking sectors.

Key Financial Indicators (Consolidated)

Particulars	Unit	2020	2019
Revenue	Rs.Crore	304	229
Profit After Tax (PAT)	Rs.Crore	30	15
PAT Margin	%	10.0	6.5
Adjusted debt/adjusted networth	Times	0.32	0.37
Interest coverage	Times	10.7	7.20

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Bank Guarantee*	NA	NA	NA	17.5	NA	CRISIL A2+
NA	Cash Credit	NA	NA	NA	45.75	NA	CRISIL A-/Stable
NA	Letter of Credit*	NA	NA	NA	12.5	NA	CRISIL A2+
NA	Standby Letter of Credit	NA	NA	NA	13.0	NA	CRISIL A2+
NA	Long Term Loan	NA	NA	31-Oct-21	0.7	NA	CRISIL A-/Stable
NA	Long Term Loan	NA	NA	30-Nov-21	0.02	NA	CRISIL A-/Stable

NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	3.0	NA	CRISIL A-/Stable
NA	Proposed Short Term Bank Loan Facility#	NA	NA	NA	16.0	NA	CRISIL A2+
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	4.03	NA	CRISIL A2+

**Two-way interchangeability between LC & BG*
#Proposed Standby Letter of Credit

Annexure - List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Thejo Hatcon Industrial Services Company, Saudi Arabia	Full	Subsidiary and business linkages
Thejo Australia Pty Ltd, Australia	Full	Subsidiary and business linkages
Thejo Brasil Comercio E Servicos Ltda, Brazil	Full	Subsidiary and business linkages
Thejo Engineering Latinoamerica SpA, Chile	Full	Subsidiary and business linkages

Annexure - Rating History for last 3 Years

	Current			2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	69.50	CRISIL A-/Stable/ CRISIL A2+	08-01-20	CRISIL BBB+/Positive/ CRISIL A2			26-12-18	CRISIL BBB+/Stable/ CRISIL A2	10-08-17	CRISIL BBB/Stable	CRISIL BBB/Negative
								06-03-18	CRISIL BBB/Positive/ CRISIL A3+			
Non Fund-based Bank Facilities	LT/ST	43.00	CRISIL A2+	08-01-20	CRISIL A2			26-12-18	CRISIL A2	10-08-17	CRISIL A3+	CRISIL A3+
								06-03-18	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 A2
Cash Credit	45.75	CRISIL A-/Stable	Cash Credit	47.75	CRISIL BBB+/Positive
Letter of Credit*	12.5	CRISIL A2+	Letter of Credit*	12.5	CRISIL A2
Long Term Loan	.72	CRISIL A-/Stable	Long Term Loan	1.83	CRISIL BBB+/Positive
Proposed Long Term Bank Loan Facility	3	CRISIL A-/Stable	Proposed Long Term Bank Loan Facility	3	CRISIL BBB+/Positive
Proposed Short Term Bank Loan Facility#	16	CRISIL A2+	Proposed Short Term Bank Loan Facility#	10	CRISIL A2
Proposed Short Term Bank Loan Facility	4.03	CRISIL A2+	Proposed Short Term Bank Loan Facility	6.92	CRISIL A2
Standby Letter of Credit	13	CRISIL A2+	Standby Letter of Credit	13	CRISIL A2
Total	112.5	--	Total	112.5	--

**Two-way interchangeability between LC & BG*
#Proposed Standby Letter of Credit

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

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CRISIL is a leading 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 1,00,000 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.

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About CRISIL Ratings
CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.
