

CONFIDENTIAL

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October 01, 2021

Mr. V. A. George
Thejo Engineering Limited
41, Cathedral Road,
VDS House,
Chennai - 600086

Dear Mr. V. A. George,

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

All ratings assigned by CRISIL Ratings 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 Ratings on the ratings as on date.

Total Bank Loan Facilities Rated	Rs.112.5 Crore
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

(Bank-wise details as per Annexure 1)

As per our Rating Agreement, CRISIL Ratings 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 Ratings 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 Ratings 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 reva lidation from CRISIL Ratings will be necessary.

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

With warm regards,

Yours sincerely,



Rajeswari Karthigeyan
Associate Director - CRISIL Ratings



Nivedita Shibu
Associate Director - CRISIL Ratings



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Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

September 30, 2021 | Mumbai

Thejo Engineering Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.112.5 Crore
Long Term Rating	CRISIL A-/Stable (Reaffirmed)
Short Term Rating	CRISIL A2+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Thejo Engineering Limited (TEL) at 'CRISIL A-/Stable/CRISIL A2+'.

TEL's revenue grew by 8% in fiscal 2021 driven by strong performance of services segment and stable performance of products. Despite reduction in profitability in overseas subsidiaries, Thejo India recorded increase in operating margins by 200 bps to 15.9% in fiscal 2021 driven by cost saving measures taken by the management and better margins in the products segment. Profitability at consolidated level reduced 70 bps majorly due to reduction in profitability in Thejo Australia.

In fiscal 2022, the revenues growth is expected to be driven by improved performance of products segment as the economy recovers and contract wins in Australia. The company also has a strong order book in excess of Rs.150 crore as of August 2021 out of which about 130 crores is executable in fiscal 2022. Over the medium term, the revenues are expected to be driven by stable revenue from the Australian subsidiary's annual contract with M/s Bridgestone Mining Solutions Australia Pty Lt, offtake in products segment and contract wins in Australia. The operating margins are expected to be above 15% over the medium term driven by stable performance of Thejo India and increase in profitability of Thejo Australia.

The financial risk profile is expected to strengthen over the medium term with healthy annual accrual of over Rs 40 crore, which will comfortably cover capex of Rs 7.5-10 crore per annum and incremental working capital requirement. Gearing has reduced to below 0.1 time from 0.32 time in fiscal 2020 driven by lower short term debt and progressive repayment of term loans.

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 cyclicity 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 Pty Ltd, Australia (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 services segment contribute around 60% 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 has reduced to below 0.1 time as on March 31,2021 from 0.32 times as on March 31,2020 driven by lower short term debt and increase in networth due to better performance in fiscal 2021. Debt protection metrics are also healthy, with interest coverage and net cash accrual to total debt ratios at more than 18 times and over 3 times, respectively, in fiscal 2021. 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, 2021, driven by receivables of 105 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 40 crore over the medium term and cash and equivalent of Rs 33 crore as on March 31, 2021. Fund-based limit of Rs 46.75 crore was utilised around 2% on average over the 12 months through August 2021. The company has term debt obligation of around Rs 2 crore over the medium term, with annual capex of Rs 8-10 crore. Internal accrual will comfortably cover debt obligation and capex requirement. With gearing of 0.07 time as on March 31, 2021, 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 50 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 99.86% 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, executive chairman, who has experience of more than three decades in corporate and banking sectors.

Key Financial Indicators (Consolidated)

Particulars	Unit	2021	2020
Revenue	Rs.Crore	328	304
Profit After Tax (PAT)	Rs.Crore	30	30
PAT Margin	%	9.3	10.0
Adjusted debt/ adjusted networkth	Times	0.07	0.32
Interest coverage	Times	18.05	10.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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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	7.0	NA	CRISIL A2+
NA	Bank guarantee#	NA	NA	NA	5.25	NA	CRISIL A2+
NA	Bank guarantee	NA	NA	NA	5.25	NA	CRISIL A2+
NA	Cash credit	NA	NA	NA	45.75	NA	CRISIL A-/Stable
NA	Letter of credit*	NA	NA	NA	5.0	NA	CRISIL A2+
NA	Letter of credit#	NA	NA	NA	3.75	NA	CRISIL A2+
NA	Letter of credit	NA	NA	NA	3.75	NA	CRISIL A2+
NA	Standby letter of credit^	NA	NA	NA	16.0	NA	CRISIL A2+
NA	Long-term loan	NA	NA	Oct-21	0.35	NA	CRISIL A-/Stable
NA	Term Loan \$	NA	NA	Feb-25	0.72	NA	CRISIL A-/Stable
NA	Proposed term loan \$	NA	NA	NA	1.78	NA	CRISIL A-/Stable
NA	Proposed term loan	NA	NA	NA	3.0	NA	CRISIL A-/Stable
NA	Proposed long-term bank loan facility	NA	NA	NA	10.5	NA	CRISIL A-/Stable
NA	Proposed short term bank loan facility	NA	NA	NA	4.4	NA	CRISIL A2+

*100% Two-way interchangeability between letter of credit and bank guarantee

#25% Two-way interchangeability between letter of credit and bank guarantee

^Interchangeability with LC and BG is being sought

\$Guaranteed emergency credit line

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

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	66.5	CRISIL A2+ / CRISIL A-/Stable	--	--	25-09-20	CRISIL A2+ / CRISIL A-/Stable	--	--	26-12-18	CRISIL BBB+/Stable / CRISIL A2	CRISIL BBB/Stable
			--	--	--	--	08-01-20	CRISIL BBB+/Positive / CRISIL A2	--	--	06-03-18	CRISIL A3+ / CRISIL BBB/Positive
Non-Fund Based Facilities	ST	46.0	CRISIL A2+	--	--	25-09-20	CRISIL A2+	--	--	26-12-18	CRISIL A2	CRISIL A3+
			--	--	--	--	08-01-20	CRISIL A2	--	--	06-03-18	CRISIL A3+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
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Bank Guarantee*	7	CRISIL A2+
Bank Guarantee#	5.25	CRISIL A2+
Bank Guarantee	5.25	CRISIL A2+
Cash Credit	6.4	CRISIL A-/Stable
Cash Credit	11.75	CRISIL A-/Stable
Cash Credit	11.75	CRISIL A-/Stable
Cash Credit	15.85	CRISIL A-/Stable
Letter of Credit*	5	CRISIL A2+
Letter of Credit#	3.75	CRISIL A2+
Letter of Credit	3.75	CRISIL A2+
Long Term Loan	0.35	CRISIL A-/Stable
Proposed Long Term Bank Loan Facility	10.5	CRISIL A-/Stable
Proposed Short Term Bank Loan Facility	4.4	CRISIL A2+
Proposed Term Loan	3	CRISIL A-/Stable
Proposed Term Loan\$	1	CRISIL A-/Stable
Proposed Term Loan\$	0.78	CRISIL A-/Stable
Standby Letter of Credit^	16	CRISIL A2+
Term Loan\$	0.72	CRISIL A-/Stable

*100% Two-way interchangeability between letter of credit and bank guarantee

#25% Two-way interchangeability between letter of credit and bank guarantee

^Interchangeability with LC and BG is being sought

\$Guaranteed emergency credit line

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Engineering Sector](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)

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