

Thejo Engineering Limited

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3rd November, 2022

The Manager,
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai 400051.

Dear Sir/Madam,

Sub: Upgrade of Credit Rating - Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015
Ref: Our Scrip Code THEJO – EQ (SM)

This is to inform you that CRISIL Ratings Limited has upgraded the Ratings on the Long-term / Short-term Bank Facilities of the Company as below:

Total Bank Loan Facilities Rated	Rs. 125 Crore (Enhanced from Rs. 112.50 Crore)
Long-Term Rating	CRISIL A/Stable (Upgraded from CRISIL A-/Stable) – Rs. 79 Crore
Short-Term Rating	CRISIL A1 (Upgraded from CRISIL A2+) – Rs. 46 Crore

We are enclosing herewith the Rating Rationale released by CRISIL Ratings Limited dated 2nd November, 2022, for your information and records.

Kindly acknowledge receipt.

Yours truly,
For Thejo Engineering Limited,

V.A. George,
Executive Chairman,
DIN: 01493737

Corporate Identification Number: L27209TN1986PLC012833

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Rating Rationale

November 02, 2022 | Mumbai

Thejo Engineering Limited

Ratings upgraded to 'CRISIL A/Stable/CRISIL A1'; Rated amount enhanced for bank debt

Rating Action

Total Bank Loan Facilities Rated	Rs.125 Crore (Enhanced from Rs.112.5 Crore)
Long Term Rating	CRISIL A/Stable (Upgraded from 'CRISIL A-/Stable')
Short Term Rating	CRISIL A1 (Upgraded from 'CRISIL A2+')

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Thejo Engineering Limited (TEL) to 'CRISIL A/Stable/CRISIL A1' from 'CRISIL A-/Stable/CRISIL A2+'.

The rating action reflects CRISIL Ratings' expectations of continued healthy improvement in TEL's business performance over the medium term driven by healthy demand for its products from end users comprising players from the mining, power, infrastructure, steel, and cement sectors. The company is well positioned to capitalise on the good demand prospects for material handling products and revenues are expected to register 8-10% growth over the medium term, given its established product basket, diversified segmental presence and geographical presence (India, Australia, Latin America, Middle East) and healthy operating capabilities, besides enhanced production capacities. The company also has a strong order book of ~Rs.200 crore as of October 2022 out of which about Rs. 120 crores is executable in fiscal 2023.

In fiscal 2022, TEL's revenue registered an on-year growth of 30% on-year despite challenging conditions in the first half of the fiscal, supported by strong performance of its services segment and stable performance of its products segment.

TEL's operating margins are expected to be above 15% over the medium term driven by stable performance of Thejo India and better profitability of Thejo Australia. Earlier, despite increase in input prices, the company's operating margins increased on-year by 80 basis points to 16.4% in fiscal 2022, supported by cost saving measures and better margins in the products segment.

The rating also factors the company's continuing strong financial risk profile supported by annual accrual of over Rs 50 crore, and comfortable debt protection metrics, with gearing below 0.1 time as on March 31, 2022. Gearing will continue to remain at comfortable levels of below 0.20 times over the medium term despite debt funded capital expenditure (capex) pertaining to capacity expansion in moulding plant undertaken by the company in fiscal 2023.

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

Analytical Approach

To arrive at the ratings, CRISIL Ratings 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 TEL 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, sales from the services segment contribute around 57% to consolidated revenues, and the products segment accounts for the remaining. The revenue diversity is further supported by export, both directly and through subsidiaries, and presence in diverse geographies helps steady growth in revenues. The company also supplies its products to end-

users across cement, steel, mining, power, infrastructure sector, which helps it mitigate cyclicity in one particular sector.

Also, with TEL developing expertise in servicing conveyor belts and other material handling equipment initially, it is also manufacturing conveyor components and rubber moulded components for various equipment used in the core sector industries as a backward integration effort. This has enabled cross-selling through O&M contracts aiding in steady revenue streams from both products and services

- **Healthy operating capabilities:** TEL has established strong operating capabilities, which along with continuing cost optimisation efforts has enabled it to increase operating margins to just over 16% in fiscal 2022, despite steep rise in input costs. Focus on high margin product business has also helped margins. Operating margins are expected to sustain at over 15-16% over the medium term with increase in scale of operations post completion of capex being undertaken by the company at its Ponneri(Chennai) unit where moulding capacity is increasing to 3600 tonnes per annum from 2400 tonnes p.a. at a cost of ~Rs.40-45 crore.

The company also has a strong in-house R&D team which focuses on developing new products and continuous improvement of existing products and this has helped develop diverse product ranges across sectors.

- **Healthy financial risk profile:** TEL's financial risk profile is healthy, as reflected in healthy net worth of over Rs.200 crore, and low debt on its balance sheet. Hence, debt protection metrics are comfortable; gearing continues to remain below 0.1 times as on March 31,2022, interest coverage and net cash accrual to total debt ratios were at over 22 times and 3 times, respectively, in fiscal 2022. The debt metrics should remain comfortable given healthy cash generation, despite mainly debt funded capex being undertaken by the company in fiscal 2023. The financial risk profile though would remain sensitive to any large debt funded acquisition, in the domestic and international markets.

Weaknesses:

- **Moderate scale of operations and susceptibility to cyclicity in end-user segments:** Although TEL is an established player in its niche product segments, its scale remains moderate though improving, 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 191 days as on March 31, 2022, which is a general norm considering the company's presence in the engineering industry and exposure to large clients, including government-owned entities. However, the gross current asset (GCA) days have reduced to 191 days as on March 31, 2022, from 205 days as on March 31, 2021, following reduction in debtor days from 105 days to 86 days. Nevertheless, given the inherent large working capital requirement, its prudent management will remain critical.

Liquidity: Adequate

TEL enjoys strong liquidity driven by expected cash accrual of more than Rs 60 crore over the medium term and cash and equivalent of Rs 51 crore as on March 31, 2022. Fund-based limit of Rs 45.75 crore was utilised less than 1% on average over the 12 months through September 2022. Internal accruals will comfortably cover annual debt obligations of Rs.4-6 crore and capex incremental working capital requirement. The company is expected to fund its ongoing capacity expansion, mainly with term debt. With low gearing, TEL will still have sufficient headroom to raise additional debt if required.

Outlook: Stable

TEL will continue to benefit from healthy orders and demand prospects for material handling products, steady operating profitability and generate good cashflows from operations. The company is also expected to sustain its healthy financial risk profile over the medium term.

Rating Sensitivity factors

Upward Factors

- Better than anticipated revenue growth, and operating profitability in excess of 15-16%, leading to higher cash generation
- Sustenance of healthy financial risk profile and liquidity position, through prudent capital spending and working capital management

Downward Factors

- Sluggish business performance impacting operating profitability (less than 9-10%), and cash generation
- Major debt funded capex or acquisitions or stretch in working capital, leading to significant deterioration of debt protection metrics.
- Significant depletion of cash surpluses

About the Company

Incorporated in 1986 and based in Chennai, TEL provides installation, regular maintenance and operation and maintenance (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 40 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	2022	2021
Revenue	Rs crore	425	328
Profit after tax (PAT)	Rs crore	43	30
PAT margin	%	10	9.3
Adjusted debt/ adjusted networkth	Times	0.09	0.07
Interest coverage	Times	22.14	18.05

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' 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.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisil.com/complexity-levels. 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)	Complexity Level	Rating assigned with outlook
NA	Bank Guarantee*	NA	NA	NA	7.0	NA	CRISIL A1
NA	Bank Guarantee*	NA	NA	NA	4	NA	CRISIL A1
NA	Bank Guarantee*	NA	NA	NA	2	NA	CRISIL A1
NA	Bank Guarantee	NA	NA	NA	8.5	NA	CRISIL A1
NA	Cash Credit^	NA	NA	NA	6.9	NA	CRISIL A/Stable
NA	Cash Credit	NA	NA	NA	39.85	NA	CRISIL A/Stable
NA	Letter of Credit*	NA	NA	NA	5.0	NA	CRISIL A1
NA	Letter of Credit*	NA	NA	NA	2	NA	CRISIL A1
NA	Letter of Credit	NA	NA	NA	2	NA	CRISIL A1
NA	Letter of Credit*	NA	NA	NA	7.5	NA	CRISIL A1
NA	Standby Letter of Credit	NA	NA	NA	8.0	NA	CRISIL A1
NA	Term Loan\$	NA	NA	Feb-25	0.6	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	Sep-26	3	NA	CRISIL A/Stable
NA	Term Loan	NA	NA	Sep-27	20	NA	CRISIL A/Stable
NA	Proposed Term Loan\$	NA	NA	NA	1.0	NA	CRISIL A/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	7.65	NA	CRISIL A/Stable

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

\$ Guaranteed emergency credit line

^Sub-limit available for availing as LC/BG

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		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	79.0	CRISIL A/Stable		—	30-09-21	CRISIL A2+ / CRISIL A-/Stable	25-09-20	CRISIL A2+ / CRISIL A-/Stable		—	CRISIL BBB+/Stable / CRISIL A2
			—		—		—	08-01-20	CRISIL BBB+/Positive / CRISIL A2		—	CRISIL BBB/Positive
Non-Fund Based Facilities	ST	46.0	CRISIL A1		—	30-09-21	CRISIL A2+	25-09-20	CRISIL A2+		—	CRISIL A2
			—		—		—	08-01-20	CRISIL A2		—	—

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	8.5	HDFC Bank Limited	CRISIL A1
Bank Guarantee ^{&}	7	State Bank of India	CRISIL A1
Bank Guarantee ^{&}	4	Axis Bank Limited	CRISIL A1
Bank Guarantee ^{&}	2	Citibank N. A.	CRISIL A1
Cash Credit ^{\$}	6.9	Citibank N. A.	CRISIL A/Stable
Cash Credit	18.7	HDFC Bank Limited	CRISIL A/Stable
Cash Credit	5.5	Axis Bank Limited	CRISIL A/Stable
Cash Credit	15.65	State Bank of India	CRISIL A/Stable
Letter of Credit ^{&}	4	HDFC Bank Limited	CRISIL A1
Letter of Credit ^{&}	3.5	HDFC Bank Limited	CRISIL A1
Letter of Credit ^{&}	5	State Bank of India	CRISIL A1
Letter of Credit ^{&}	2	Axis Bank Limited	CRISIL A1
Letter of Credit	2	Citibank N. A.	CRISIL A1
Proposed Long Term Bank Loan Facility	7.65	Not Applicable	CRISIL A/Stable
Proposed Term Loan ^{<}	1	Axis Bank Limited	CRISIL A/Stable
Standby Letter of Credit	8	Citibank N. A.	CRISIL A1
Term Loan ^{<}	0.6	State Bank of India	CRISIL A/Stable
Term Loan	23	HDFC Bank Limited	CRISIL A/Stable

This Annexure has been updated on 02-Nov-2022 in line with the lender-wise facility details as on 30-Sep-2021 received from the rated entity.

& - 100% Two-way interchangeability/sub-limit between letter of credit and bank guarantee

\$ - Sub-limit available for availing as LC/BG

< - 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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