

THEJO ENGINEERING LIMITED – INITIAL PUBLIC OFFERING

Issue – Overview

Thejo is proposing to raise ₹21 crore through an Initial Public Offering and list its shares on EMERGE, the SME platform of the National Stock Exchange. The price band per share of face value ₹10 is ₹402 to ₹430.

CRISIL has assigned a CRISIL SME fundamental grade of '**SME 5/5**' to the proposed IPO of Thejo Engineering Ltd. This indicates that the **fundamentals of the IPO are excellent** as compared to other SMEs in India.

Background of the Company

- Thejo is a light engineering Company based in Chennai providing Engineering Solutions for Bulk Material Handling, Mineral Processing and Corrosion Protection to the Core Sector Industries like mining, power, steel, cement, ports, fertilizers etc.
- The services offered by the Company include belt conveyor maintenance and operations, while its product portfolio covers design, manufacture and supply of engineering products for Bulk Material Handling, Mineral Processing and Corrosion Protection.
- In fiscal 2011, products and services contributed 55 % and 38% of its total income respectively. The remaining 7% of income was contributed by trading activities.
- Currently, Thejo is one of the few companies in the sub continent offering manufacturing, marketing and servicing activities under one roof.
- The Company has 4 manufacturing units, all of which are located near Chennai. It also has a pan India presence through 11 branch offices and 36 site offices.
- International presence through partnerships and distribution network extends across Australia, Kingdom of Saudi Arabia, the USA, Germany, Chile, Brazil and Ghana.

Strengths of the Company

- **Only Organized player in both the products' and services' space** – Thejo is the only organized player in both the products' and services' space, which allows it to cross sell its offerings. This also allows the Company to procure the products used in the services' business from its products division.
- **Established brand name and reputation** – Thejo has been in the same line of business since 1976, and has established a strong brand name and reputation. The Company has also developed strong customer relationships leading to repeat orders.

- **Financial Strength** – The Company, as on December 31, 2011 had a Debt / Equity ratio of 1.01, which indicates strong financials for a light engineering Company. This would allow the Company to take on more debt in the future to fuel its growth plans. The Company has been rated “SE1A”, in a NSIC-CRISIL rating exercise, indicating “**Highest Performance Capability and Highest Financial Strength**”.
- **Professional Management** – The Company is run by a professional management team, with members from varied backgrounds such as manufacturing, industry and banking.
- **Corporate Governance** – The Company has a nine member Board of Directors, of which five members are independent directors of high repute.

Strategies

Diversify Geographically –

- **Australia** –_With the incorporation Thejo Australia Pty Ltd, a subsidiary in Australia, Thejo is well poised to enter the services business. This company will focus on offering belt conveyor related maintenance services and rubber lining activities, initially to clients in Western Australia. The company also intends to sell products for bulk material handling and corrosion protection under the THEJO brand.
- **Africa** – The Company is also keen to establish a branch/subsidiary in western Africa. It has secured orders for mill liners from mines in Ghana. It is exploring other such opportunities and intends to engage agents to market products under the THEJO brand in the Western African countries such as Ghana, Ivory Coast, Burkina Faso, Togo etc.
- **Saudi Arabia** – Thejo has entered into a joint venture with Hatcon LLC. The presence of a wide range of industries and the fact that Saudi Arabia is one of the largest producers of oil, justifies the establishment of a service center.

Improving Domestic Reach - The domestic market has shown increased growth with many projects coming up in mining, steel, power and ports sector. The Company has segmented the domestic market into zones with each zone having a number of business development managers with well demarcated territory. These managers are supported by product managers, who help in understanding client requirements and oversee execution into desired products.

Polyurethane Division – The Company was initially importing polyurethane blades for use in its belt cleaners, screens, liners, pump parts, mineral processing equipments and certain customized polyurethane products. Due to sustained increase in demand, it is in the process of setting up a plant to manufacture the blades.

Lining Plant – The increased number of orders for lining products has necessitated the establishment of a separate lining division. A lining plant is being set-up with increased automation and is expected to handle large number of orders with enhanced logistics capabilities.

Financial Overview

	FY10	FY11	FY12 (Dec' 2011)
Net Sales	64.32	95.22	78.18
EBITDA	7.57	10.03	10.16
<i>OPM (%)</i>	<i>11.77%</i>	<i>10.54%</i>	<i>13.00%</i>
Profit Before Tax	3.51	5.78	6.44
Profit After Tax	2.27	3.83	4.34
<i>NPM (%)</i>	<i>3.53%</i>	<i>4.02%</i>	<i>5.55%</i>
Share Capital	1.18	1.18	1.18
Reserves & Surplus	12.73	16.08	20.45
Tangible Net Worth	13.91	17.26	21.63
Secured Loans	19.85	19.53	21.94
Debt/Equity	<i>1.43</i>	<i>1.13</i>	<i>1.01</i>

Pricing

The EPS for nine month period ended December 31, 2011 is Rs.36.66. The P/E multiple at this EPS works out to 11.73x and 10.93x at the higher end and lower end of the price band respectively. The P/E multiple on projected FY12 numbers works out to 9.00x and 8.41x at the higher end and lower end of the price band respectively.

Investors

SIDBI Venture Capital Limited (SVCL) has agreed to participate in the IPO and also agreed to act as the nominated investor. The merchant banker is currently in discussions with other reputed institutional investors to participate in the issue.

Market making

The merchant banker is required to compulsorily market make issue for a period of 3 years from the date of listing. The nominated investor will provide support to the market maker for market making. Market making will ensure liquidity for the stock.