

Tega Industries Ltd.

Recommendation	SUBSCRIBE	
Price Band	Rs 443-453	
Bidding Date	1-3 December	
Book Running Lead Manager	JM Financial, Axis Capital	
Registrar	Link Intime India Pvt. Ltd.	
Sector	Engineering	
Minimum Retail Application		
Number of Shares	33	
Application Money	Rs. 14,949	
Discount to Retail	NIL	
Payment Mode	ASBA, UPI	
Financials (Rs Cr)	FY20	FY21
Total Income	696	857
EBITDA	107	187
PAT	66	136
Valuations (FY21)	Upper Band	
Market Cap (Rs Cr)	3,003	
EPS	7.2	
P/E Ratio	22.0	
EV/EBITDA	16.8	
P/BV	24.1	
Post Issue Shareholding Pattern		
Promoters & Promoters Group	79.2%	
Public	20.8%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity Capital (Rs cr)	6.6	
Issue Size (Rs cr)	606-619	
Face Value (Rs)	10	
Avish Jain Research Associate (+91 22 6273 8021) avish.jain@nirmalbang.com		

*Annualised Q1FY22E

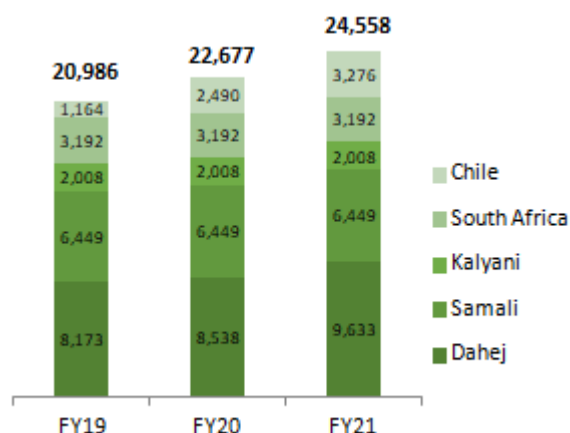
Tega Industries Ltd.

Company Background

Tega Industries Limited (“Tega”) is a leading manufacturer and distributor of specialized ‘critical to operate’ and recurring consumable products for the global mineral beneficiation, mining and bulk solids handling industry. Globally, they are the second largest producers of polymer-based mill liners. Tega offers comprehensive solutions to marquee global clients in the mineral beneficiation, mining and bulk solids handling industry, through their wide product portfolio of specialized abrasion and wear-resistant rubber, polyurethane, steel and ceramic based lining components, used by their customers across different stages of mining and mineral processing, screening, grinding and material handling, including after-market spends on wear, spare parts, grinding media and power, which are regular operating expenses for their customers. Their engineering capability has enabled them to offer their quality, complex manufactured products within stipulated timelines, allowing them to reduce downtime and maximize operational efficiency for their customers, and forge robust relationships with their customers leading to high recurring revenues.

Tega commenced their operations in 1978 in India, with a foreign collobaration with Skega AB, Sweden. Tega’s product portfolio comprises more than 55 mineral processing and material handling products which covers a wide range of solutions in the mining equipment, aggregates equipment and the mineral consumables industry. Company’s products offering include consumables required in the mines and mineral processing industry. The company owns and operates six manufacturing facilities across the globe, including three in India, in Dahej in Gujarat and at Samali and Kalyani in West Bengal, and three in the major global mining locations of Chile, South Africa and Australia. The sequence of their usage in the mineral processing value chain, after blasting to floatation, their products include chutes and its liners, grinding mill liners, trommels and screens, hydrocyclones, pumps and flotation parts and conveyor products. Their product range is engineered with a combination of mineral processing engineering, mechanical engineering and material sciences, while utilising their expertise in tribology.

Installed Capacity (TPA)



Source: RHP, NBRR

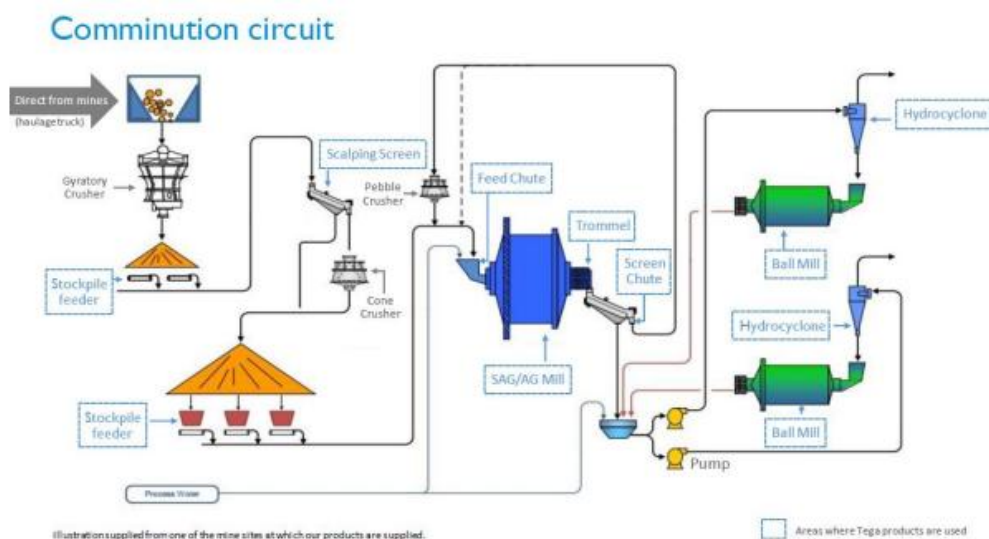
Tega Industries Ltd.

Company Product Portfolio



Source: RHP

Below is the diagrammatic representation of company's product range used in the mineral processing and material handling industry value chain:



Source: RHP

Tega Industries Ltd.

Investment Rationale

Oligopolistic Market Structure

Tega operates in an oligopolistic market structure with high barriers to replacement or substitution, wherein they are the second largest producers of polymer based mill liners globally. The company is present across the value chain of a mineral processing site, providing a wide range of products and solutions for processing across different stages of mineral processing.

Mineral processing sites do not tend to switch to a substitute supplier, even if the product offered by a new entrant or established substitute supplier is comparatively cheaper. This is due to the high cost of initial planning involved, the lead time required for approval, degree of certainty of the products of an established supplier, the high cost of downtime or shutdown of a site and relatively lower percentage cost of company's components in the total operating costs of a mineral processing site. Since mineral processing sites ordinarily refrain from switching and remain with an existing approved supplier, Tega has the flexibility to maintain high margins throughout the period of its association with a mineral processing site. It takes from nine months to one year to become an approved supplier at every customer site and once approved, these approvals do not have an expiry period. Additionally, globally the industry in which they operate has limited number of established competitors. Following are some of the established competitors for certain of company's products. Tega's revenues comprises 86% from global markets which de-risks the business from the domestic demand and supply cycles, a market boon in the midst of covid-19.

Products	Competitors
Mill liners	Metso-Outotec, Mc Elecmetal, Bradken, FL Smidth and Weir
Hydrocyclones	Weir, FL Smidth, Metso-Outotec, Schlumberger and Technip
Trommels and Screens	Multotec, Sandvik, FL Smidth and Metso-Outotec
Mineral processing equipment	Metso-Outotec, FL Smidth, Weir and Trelleborg AB

Source: RHP, NBRR

Insulated from mining capex cycles, provides recurring revenues

Company's products cater to the after-market spend of a mining processing unit. As a result, 75-80% of their sale of products and services resulted from repeat orders of spares. Tega's focused end-customers are mineral processing sites involved in gold and copper ore beneficiation accounting for around 45.5% and 21% respectively of their sale of products. Gold and copper mill sites require superior quality of consumables and have higher beneficiation requirements. Despite some volatility in capital expenditure cycles for gold and copper mining sites, their business was not impacted, as a majority of their products were linked to the operating expenditure budget of a mining site and not capital expenditure.

Marquee global customer base with strong global manufacturing and sales capabilities

Tega commenced operations with a foreign collaboration with Skega AB, Sweden in 1978. Over time, they have diversified their capabilities by expanding their product portfolio and augmenting their technical capabilities. The company now operates 6 manufacturing facilities across the globe. Tega has a track-record of servicing leading global mining companies for a long period of time and in several cases, their relationships with key customers span more than 10 years, leading to high repeat revenues for them. Moreover, their deep relationships with some of the world's largest senior miners and a robust order book of Rs 316.14 Cr as of June 30, 2021 allow them significant visibility to plan for future growth.

Company's extensive footprint across key mining belts worldwide has allowed them to enjoy economies of scale and logistical advantages and develop significant insight into their customers' needs and market trends. Their sales and distribution network is also in-house, with 18 overseas and 14 domestic sales offices strategically located in all the key geographies close

Tega Industries Ltd.

to key customers, supported by 155 member dedicated sales and servicing team with ability to assist pre sales and after sales services and in select geographies by commission agents from time to time.

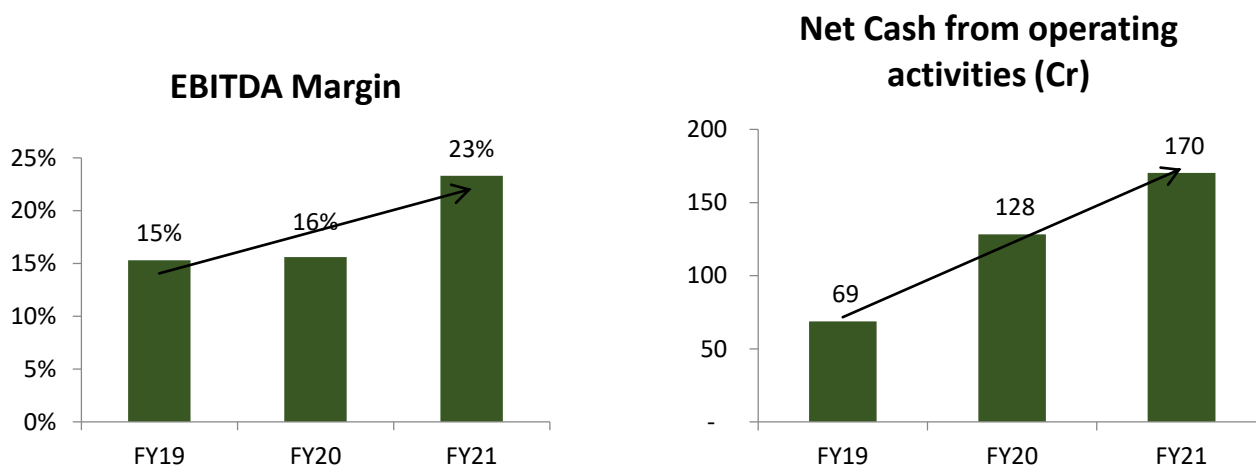
Customer Base	FY19	FY20	FY21	Q1FY22
Domestic	215	239	255	98
Overseas	264	259	258	114
Total	479	498	513	212

Source: RHP, NBRR

Consistent growth, driven by operational efficiency and high repeat business

Company's business operates with around 60% material margins and 23% EBITDA margins. Their strong market position and entry barriers help them maintain high margins over time. Their business is capital efficient, with sale of products being 4.57 times of the property, plant and equipment (sale of products divided by net carrying value of property plant and equipment) and ROCE of 24.76% for Fiscal 2021 respectively. Further, they have successfully maintained this operational efficiency while completing and integrating acquisitions, joint ventures and strategic alliances, including their acquisitions in Chile, South Africa and Australia.

Their repeat business from existing mineral processing sites accounts for around 75% of their revenue from operations each year and they are able to consistently add new customers and sites, on account of their value added offering focused on reduction of cost per tonne of processing and reduction of the downtime cost. The company generated net cash of around Rs 170 Cr in Fiscal 2021.



Source: NBRR

Tega Industries Ltd.

Risks and Concerns

Climate change related laws and regulations concerning the mining industry may adversely impact company's operations

The Government of India and a number of governmental bodies (domestic and international) have introduced or are contemplating regulatory change in response to the potential impact of climate change. There is also current and emerging regulation, energy targets and initiatives relating to solar power and wind power that can affect energy prices. Such regulatory mechanisms may be either voluntary or legislated and may impact company's operations directly or indirectly through customers.

Assessments of the potential impact of future climate change regulation are uncertain, given the wide scope of potential regulatory change in India and overseas. The potential physical impact of climate change on company's operations and those of their customers are highly uncertain, and will be particular to the geographic circumstances. These effects may adversely impact the cost, production and financial performance of company's operations.

Fewer suppliers with no long term contracts

Tega procures its raw materials from certain key suppliers which are established players in India and overseas. Since the company is largely dependent on these suppliers, the company is subject to several risks including increases in cost of raw materials and reduced control over delivery schedules. The company also faces risks of existing suppliers discontinuing their supplies to the company. This may have an adverse on effect on its business and future prospects.

Business in foreign countries exposes the company to higher risks

Around 86% of Tega's revenues come from foreign countries. The company may face several risks including economic, political, social, geographical conditions and adverse weather conditions. Hyperinflationary conditions, any instability of credit markets, foreign currency fluctuations and controls, particularly the ability to repatriate funds to India and to any other countries would affect company's business and operations.

Valuation and Recommendation

The global crushing, screening and mineral processing equipment faced some headwinds due to the pandemic. The overall industry witnessed a decline in demand. However, with the re-opening of the global economy the industry is likely to grow at a CAGR of 6.3% by 2030.

We believe Tega is well placed across the value chain of a mineral processing as it provides wide range of products and solutions. The company uses strong technology that is backed by R&D and expertise, which provides a distinct and entry barrier for the company. Tega has marquee global customers and a robust order book position of Rs 316 Cr, which are key positives for the company. On financial front, company's performance has been strong wherein Sales/EBITDA grew at a CAGR of 8%/25% between FY19-21. The company has an attractive ROE of 22% and is available at P/E of 22x FY21. We are positive on this company with the growth momentum likely to continue going forward **and recommend "Subscribe to the issue"**.

Company	FY21 Sales	Sales CAGR FY19-21	EBITDA CAGR FY19-21	D/E	Total Asset Turnover	EBITDA Margins	ROCE	ROE	EV/EBITDA	P/E
AIA Engineering	2881	9%	-0.2%	-0.3	0.7	22.9%	12.7%	13.3%	24.7	31.0
Tega Industries	806	8%	25%	0.2	1.0	23.3%	17.0%	22.2%	16.8	22.0

Source: NBRR

Tega Industries Ltd.

Financials

P&L (Rs. Cr)	FY19	FY20	FY21	Q1FY22
Net Revenue	634	685	806	173
% Growth		8%	18%	
Raw Materials	257	274	324	69
% of Revenues	40.6%	40.0%	40.2%	39.6%
Employee Cost	111	115	123	35
% of Revenues	17.6%	16.8%	15.2%	20.2%
Other expenses	168	189	172	46
% of Revenues	26.5%	27.6%	21.3%	26.6%
EBITDA	97	107	187	24
EBITDA Margin	15.3%	15.6%	23.3%	13.6%
Depreciation	38	38	40	11
Other Income	9	11	51	6
Interest	24	21	17	4
Share of PAT (Invst)	2	2	3	1
Exceptional Item	-	-	-	-
PBT	46	59	184	16
Tax	14	(6)	47	4
Tax rate	30%	-11%	26%	27%
PAT	33	66	136	12
% Growth		101%	108%	
EPS (Post Issue)	4.9	9.9	20.6	7.2
Performance Ratios	FY19	FY20	FY21	Q1FY22
EBITDA Margin (%)	15.3%	15.6%	23.3%	13.6%
PAT Margin (%)	5.2%	9.6%	16.9%	6.9%
ROE (%)	8.1%	14.2%	22.2%	7.5%
ROCE (%)	11.4%	11.4%	25.1%	9.7%
Net D/E (x)	0.5	0.4	0.2	0.2
Turnover Ratios	FY19	FY20	FY21	Q1FY22
Debtors Days	119	97	99	88
Inventory Days	69	70	71	108
Creditor Days	46	34	44	61
Asset Turnover (x)	1.0	1.0	1.0	0.8
Valuation Ratios	FY19	FY20	FY21	Q1FY22
Price/Earnings (x)	91.9	45.8	22.0	63.2
EV/EBITDA (x)	33.0	30.1	16.8	33.2
Price/BV (x)	21.3	18.6	24.1	24.6
EV/Sales (x)	5.0	4.7	3.9	4.5

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	Q1FY22
Share Capital	58	58	58	58
Reserve & Surplus	344	405	556	574
Networth	401	462	614	631
Total Loans	213	244	188	184
Lease Liability	31	34	32	34
Other non-curr liab.	9	20	18	16
Trade payable	81	65	99	117
Other Current Liab	45	51	54	57
Total provisions	12	11	15	17
Total Current Liab.	125	116	153	174
Total Equity & Liab.	790	887	1,018	1,056
Fixed Assets & CWIP	225	216	236	237
Goodwill	56	52	63	63
Other Intangible Assets	3	3	1	2
Investments	81	161	205	219
Deff Tax Assets	18	39	36	38
Other non Curr. assets	8	14	12	12
Cash	20	37	48	66
Inventories	121	133	159	208
Debtors	210	185	221	170
Other Current assets	49	48	38	41
Total Assets	790	887	1,018	1,056
Cash Flow (Rs. Cr)	FY19	FY20	FY21	Q1FY22
EBITDA	97	107	187	24
Provisions & Others	20	29	52	6
Op. profit before WC	117	136	239	29
Change in WC	(34)	12	(38)	25
Less: Tax	15	20	30	5
CF from operations	69	128	170	49
Addition to assets	(25)	(26)	(48)	(9)
(Purchase)/Sale of invst.	11	(76)	(32)	(12)
Div/Loans/Int Received	1	1	1	0
CF from Investing	(13)	(101)	(80)	(21)
Loans	(66)	18	(53)	(6)
Lease Liability	(4)	(5)	(8)	(2)
Interest paid	(24)	(22)	(18)	(4)
CF from Financing	(93)	(9)	(79)	(12)
Forex Fluctuations	(0)	(0)	(1)	(0)
Net Change in cash	(38)	18	11	17
Cash at beginning	58	19	37	48
Cash at end	19	37	48	65

Disclosure:

This Report is published by Nirmal Bang Securities Private Limited (hereinafter referred to as “NBSPL”) for private circulation. NBSPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001766. NBSPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments. It is also a registered Portfolio Manager having registration no as INP000002981.

NBSPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBSPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBSPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBSPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBSPL or its associates or Analyst or his relatives hold / do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBSPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBSPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBSPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, **Avish Jain** the research associate and author of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Tega Industries Ltd.

Disclaimer:

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBSPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBSPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBSPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBSPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBSPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBSPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBSPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBSPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBSPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBSPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBSPL.

Our reports are also available on our website www.nirmalbang.com.

Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

B-2, 301/302, Marathon Innova,
 Opp. Peninsula Corporate Park,
 Off Ganpatrao Kadam Marg,
 Lower Parel (W), Mumbai-400013
 Board No. : 91 22 3926 8000/8001
 Fax. : 022 3926 8010