

## TEGA INDUSTRIES LTD

Having commenced its operation in 1978, Tega Industries is a leading manufacturer of 'critical to operate' and recurring consumable products and is the 2<sup>nd</sup> largest producers globally of polymer-based mill liners based on revenues. These products have application in global mineral beneficiation, mining and bulk solids handling industries and are not linked to capex as they cater to the after-market spend of a mining processing unit. Its focus end customer industries are mineral processing sites involved in gold and copper ore beneficiation which combined averaged ~62% (34.92% and 27.25% respectively) of revenues from products over FY19-21. Company has six manufacturing sites of which, three are in India and one each in major mining hubs - Chile, South Africa, and Australia. ~86% its revenue was derived from operation outside of India.

**Positives:** (a) A leading producer of specialized and "critical to operate" products, with high barriers to replacement or substitution. (b) Insulated from mining capex cycles, as products cater to after-market spends, providing recurring revenues. (c) Consistent growth characterized by operational efficiency & high repeat business. (d) Diverse global presence with strong manufacturing & sales capabilities.

**Investment concerns:** (a) Tega has grown inorganically (outside India) and acquired companies' accounts for substantial portion of the overall revenues. This also exposes it to various risk associated with global operations and currency fluctuations. (b) Losses of international subsidiaries has impacted performance in the past. (c) The operations are working capital intensive in nature (d) Continuing impact of the COVID-19.

**Outlook & Valuation:** Tega has posted revenue CAGR of ~13% over FY19-21 while the PAT CAGR of 104% was aided by ~800 bps margin expansion and ₹28 Cr forex gains in FY21. Tega operates in an oligopolistic industry where the switching of suppliers is negligible given the impact of downtimes for end users. Moreover, factors like higher demand for copper and decline in ore yields are positives for the industry. Tega has launched Dyna Prime, few years' back that has expanded its addressable market and is evident from strong performance of its Chilean Subsidiary (turned loss to profit in FY20) where it is seeing strong traction and acceptance by the mining cos. in Chile and LATAM. At ₹453, Tega is seeking 22x its FY21 EPS; ~25x after adj. for Forex Gains, which is fair, compared to an Indian listed peer in mill liner industry. We have a "SUBSCRIBE" rating on the issue.

### Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY22
<b>Net Sales</b>	<b>634</b>	<b>685</b>	<b>806</b>	<b>173</b>
% chg	-	8.1	17.6	-
<b>Reported Net Profit</b>	<b>33</b>	<b>66</b>	<b>136</b>	<b>12</b>
% chg	-	100.5	108.2	-
EBITDA (%)	15.3	15.6	23.3	13.6
<b>EPS (₹)</b>	<b>4.9</b>	<b>9.9</b>	<b>20.6</b>	<b>1.8</b>
P/E (x)	91.9	45.8	22.0	-
P/BV (x)	7.5	6.5	4.9	-
ROE (%)	16.3	15.2	25.3	-
ROCE (%)	14.6	12.6	18.6	-
EV/EBITDA	33.0	29.4	16.1	-

Source: Company, Angel Research; Note: Valuation ratios at upper price band; \*Consolidated

## SUBSCRIBE

Issue Open: Dec 01, 2021

Issue Close: Dec 03, 2021

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹66.3 cr

Offer for Sale: ₹619 cr

Fresh issue: --

Post Eq. Paid up Capital: ₹10.2cr

Issue size (amount): ₹619 cr

Price Band: ₹443-453

Lot Size: 33 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹2,937 cr - \*\* ₹3,003 cr

Promoters holding Pre-Issue: 85.17%

Promoters holding Post-Issue: 79.17%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	79.2%
Others	20.8%

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## Company background

Tega Industries Ltd. 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, based on sales as of June’21 (Source: F&S Report). Globally, they are the second largest producers of polymer-based mill liners, based on revenues as of June 30, 2021 (Source: F&S Report). Tega offers comprehensive solutions to marquee global clients in the mineral beneficiation, mining and bulk solids handling industry, through its wide product portfolio of chutes and its liners, grinding mill liners, trommels and screens, hydrocyclones, pumps and flotation parts and conveyor products. Tega’s focus end-customers are mineral processing sites involved in gold and copper ore beneficiation accounting for 34.92% and 27.25% respectively of its revenue from sale of products, as an average of the last three Fiscals.

It has been successful in inorganic initiatives with the acquisition in South Africa and Australia and Chile. Tega has six manufacturing sites, including three in India, at Dahej in Gujarat and at Samali and Kalyani in West Bengal, and three sites in major mining hubs of Chile, South Africa, and Australia. Revenue from operation from outside India averaged ~86% of revenue from operations over the past three Fiscals. ~75% of sale of products and services were from repeat order of spares.

## Issue details

The IPO is made up of offer for sale of ₹619 Cr by promoter & investor shareholders.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	5,64,61,483	85.17	5,24,83,895	79.17
Public	98,31,666	14.83	1,38,09,254	20.83
<b>Total</b>	<b>6,62,93,149</b>	<b>100.00</b>	<b>6,62,93,149</b>	<b>100.00</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

## Key Management Personnel

**Madan Mohan Mohanka** is one of the Promoters, and the Chairman and Executive Director. He holds a bachelor’s degree in science (engineering) from Ranchi University and a PGDBA from IIM, Ahmedabad.

**Mehul Mohanka** is one of the Promoters, the Managing Director and Group CEO. Company. He also holds an MBA from the University of Pittsburgh. Further, he has completed an advanced management program from Harvard Business School.

**Syed Yaver Imam** has been designated as the Director – Global Product Group. He holds a bachelor’s degree in civil engineering from the Jadavpur University and has completed a short-term course in mineral processing from IIT (ISM) Dhanbad.

**Manoj Kumar Agarwal** is Director Global Finance and Chief Financial Officer. He holds a bachelor’s degree in commerce from university of Calcutta. He is a member of the Institute of Company Secretaries of India and the Institute of Chartered Accountants of India.

**Exhibit 1: Profit & Loss Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY22
<b>Total operating income</b>	<b>634</b>	<b>685</b>	<b>806</b>	<b>173</b>
% chg	--	8.1	17.6	--
<b>Total Expenditure</b>	<b>537</b>	<b>578</b>	<b>618</b>	<b>150</b>
Cost of materials consumed	265	285	328	76
Changes In Inventories	(8)	(11)	(4)	(8)
Employee benefits expense	111	115	123	35
Other expenses	168	189	172	46
<b>EBITDA</b>	<b>97</b>	<b>107</b>	<b>187</b>	<b>24</b>
% chg	--	10.1	76.0	--
<b>(% of Net Sales)</b>	<b>15.3</b>	<b>15.6</b>	<b>23.3</b>	<b>13.6</b>
Depreciation & Amortization	38	38	40	11
<b>EBIT</b>	<b>59</b>	<b>68</b>	<b>147</b>	<b>13</b>
% chg	--	15.6	116.1	--
(% of Net Sales)	9.3	10.0	18.3	7.5
Finance costs	24	21	17	4
Other income	9	11	51	6
(% of Sales)	1.5	1.6	6.4	3.6
<b>Recurring PBT</b>	<b>35</b>	<b>47</b>	<b>130</b>	<b>9</b>
% chg	--	32.1	178.2	--
Share in Profit/(Loss) of Assc. & JV	2	2	3	1
Tax	14	(6)	47	4
<b>PAT (reported)</b>	<b>33</b>	<b>66</b>	<b>136</b>	<b>12</b>
% chg	--	100.5	108.2	--
(% of Net Sales)	5.2	9.6	16.9	6.9
<b>Basic &amp; Fully Diluted EPS (₹)</b>	<b>4.9</b>	<b>9.9</b>	<b>20.6</b>	<b>1.8</b>

Source: Company, Angel Research

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY22
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	58	58	58	58
Other equity	344	405	556	574
<b>Shareholders' Funds</b>	<b>401</b>	<b>462</b>	<b>614</b>	<b>631</b>
<b>Total Loans</b>	<b>244</b>	<b>278</b>	<b>220</b>	<b>218</b>
Other liabilities	(1)	(11)	(8)	(11)
<b>Total Liabilities</b>	<b>644</b>	<b>730</b>	<b>825</b>	<b>838</b>
<b>APPLICATION OF FUNDS</b>				
Property, Plant and Equipment	185	169	169	169
Right-of-use assets	39	41	59	61
Capital work-in-progress	4	9	7	7
Intangible assets	56	53	64	65
Non-Current Investments	39	41	45	28
Other Non-Current Asset	20	25	26	27
<b>Current Assets</b>	<b>438</b>	<b>519</b>	<b>623</b>	<b>672</b>
Inventories	121	133	159	208
Investments	38	117	156	188
Trade receivables	210	185	221	170
Cash and Cash equivalents	20	37	48	66
Loans & Other Financial Assets	4	3	4	5
Other current assets	44	45	34	36
<b>Current Liability</b>	<b>137</b>	<b>127</b>	<b>167</b>	<b>191</b>
<b>Net Current Assets</b>	<b>301</b>	<b>392</b>	<b>455</b>	<b>481</b>
<b>Total Assets</b>	<b>644</b>	<b>730</b>	<b>825</b>	<b>838</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash flows**

Y/E March (₹cr)	FY2019	FY2020	FY2021	Q1FY22
<b>Operating profit</b>	<b>46</b>	<b>59</b>	<b>184</b>	<b>16</b>
Net changes in working capital	(34)	12	(38)	25
Cash generated from operations	70	77	55	13
Direct taxes paid (net of refunds)	(15)	(20)	(30)	(5)
<b>Net cash flow from operating activities</b>	<b>69</b>	<b>128</b>	<b>170</b>	<b>49</b>
Purchase of Assets	(26)	(28)	(49)	(9)
Interest received	0	1	0	0
Others	12	(74)	(31)	(11)
<b>Cash Flow from Investing</b>	<b>(13)</b>	<b>(101)</b>	<b>(80)</b>	<b>(21)</b>
Repayment (long term borrowings)	(45)	13	4	(5)
Repayment (short term borrowings)	(21)	5	(57)	(1)
Payment on Derivative Settlement (net)	(1)	(2)	(4)	(1)
Interest paid	(20)	(17)	(11)	(2)
Interest on Lease liabilities	(7)	(8)	(10)	(3)
Dividend Paid	-	-	-	-
<b>Cash Flow from Financing</b>	<b>(93)</b>	<b>(9)</b>	<b>(79)</b>	<b>(12)</b>
Effect of Foreign Exchange Fluctuation	(0)	(0)	(1)	(0)
Inc./ (Dec.) in Cash	(38)	18	12	17
<b>Opening Cash balances</b>	<b>58</b>	<b>19</b>	<b>37</b>	<b>48</b>
<b>Closing Cash balances</b>	<b>19</b>	<b>37</b>	<b>48</b>	<b>65</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	91.9	45.8	22.0
P/CEPS	42.6	28.9	17.0
P/BV	7.5	6.5	4.9
EV/Sales	5.0	4.6	3.7
EV/EBITDA	33.0	29.4	16.1
<b>Per Share Data (Rs)</b>			
EPS (Basic)	4.9	9.9	20.6
EPS (fully diluted)	4.9	9.9	20.6
Cash EPS	10.6	15.7	26.6
Book Value	61	70	93
<b>Returns (%)</b>			
ROE	16.3	15.2	25.3
ROCE	14.6	12.6	18.6
<b>Turnover ratios (x)</b>			
Receivables (days)	121	99	100
Inventory (days)	172	177	179
Payables (days)	114	87	111
Working capital cycle (days)	178	188	168

Source: Company, Angel Research

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