

IPO Note: Tega Industries Ltd.

Industry: Mining

Reco: Subscribe

Date: December 01, 2021

Issue Snapshot		Issue Break up		
Company Name	Tega Industries Ltd.	QIB ex Anchor	20%	2,733,896
Issue Opens	December 01, 2021 to December 03, 2021	Anchor Investor	30%	4,100,843
Price Band	Rs. 443 to Rs. 453	HNI	15%	2,050,422
Bid Lot	33 Equity Shares and in multiples thereof.	RII	35%	4,784,317
The Offer	Public issue of 13,669,478 Equity shares of Face value Rs. 10 each, (Comprising of Offer for by Selling Shareholder).	Total Public	100%	13,669,478
Issue Size	Rs. 605.6 – 619.2 Crore			
IPO Process	100% Book Building	Equity Share Pre Issue (Nos. Cr.)		6.6
Face Value	Rs. 10.00	OFS Share (Nos. Cr.)		1.4
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		6.6
BRLM	Axis Capital Limited and JM Financial Limited	Market Cap (Rs. Cr.)		3,003.1
Registrar	Link Intime India Private Limited	Stake Sale by OFS		20.6%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 3,314,657 equity shares by Madan Mohan Mohanka, up to 662,931 equity by Manish Mohanka and up to 9,691,890 equity shares by Wagner Limited)

Company Highlights

- Tega Industries Ltd. (TIL) 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, on the basis of sales as of June 30, 2021 (Source: F&S Report). Globally, it is the second largest producers of polymer-based mill liners, on the basis of revenues as of June 30, 2021.
- The company offers comprehensive solutions to marquee global clients in the mineral beneficiation, mining and bulk solids handling industry, through its wide product portfolio of specialized abrasion and wear-resistant rubber, polyurethane, steel and ceramic based lining components, used by its 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 its customers.
- TIL's engineering capability, which has evolved over decades, has enabled to consistently offer its quality, complex manufactured products within stipulated timelines, allowing it to reduce downtime and maximize operational efficiency for its customers, and forge robust relationships with its customers leading to high recurring revenues.
- 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.
- TIL's mineral processing and material handling products offering covers a wide range of solutions in the mining equipment, aggregates equipment and the mineral consumables industry. TIL's products offering include consumables required in the mines and mineral processing industry.
- TIL 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, with a total built-up area of 74,255 Sq. mts. Its facilities in India caters to the domestic and overseas markets across mineral processing and materials handling industries, while its facilities in Chile, South Africa and Australia caters to their respective local and regional mineral processing and materials handling industries.

- Additionally, TIL's joint venture in India with U.K. branch of Hosch Group, Germany is engaged in precision conveyor belt cleaning and caters to various industries in India. The company also has 18 global and 14 domestic sales offices located close to its key customers and mining sites.
- In order to expand the operations globally, the company acquired Tega Industries Africa (Pty) Ltd. (formerly, Beruc Equipment (Proprietary) Ltd) (Tega Africa) in FY07 which is a South Africa based manufacturer and distributor of grinding mill liners and screen media, amongst others and gave them access to manufacturing capabilities and customers in Africa's mining and industrial markets. The company continued their expansion and acquired Chile based Tega Industries Chile SpA (formerly Acotec SA) (Tega Chile) in FY11 which is involved in the manufacture of pumps, screen media and wear products. Their facilities in Chile give them access to the South American markets including Chile, Peru and Bolivia (Latin American countries contribute 40% of the global copper production and 8% of the global gold production output). In the same year, the company also acquired Perth based Losugen Pty. Ltd. (Losugen) which specialized in the design, distribution, installation, wear monitoring of wear liners, rubber lining, screens for mining handling industries.

View

- Tega has a very diverse product of more than 55 mineral processing material handling products. Globally, the company is the 2nd largest producers of polymer-based mill liners. Tega operates in oligopolistic market with very few competitors and therefore it has very high barriers to entry. Tega has grown through organic and inorganic acquisitions in the past.
- The global crushing, screening, and mineral processing equipment market was growing at a CAGR of ~7% till 2019 and was estimated at USD 20bn in 2020. But, due to the COVID-19 pandemic, the overall industry witnessed a decline in demand. However, with the reopening of the global economy, the industry is likely to grow at a CAGR of 6.3% and reach USD 36.9bn by 2030. The growth of the mineral processing equipment industry will be driven by the demand for iron ore, copper, and other metals and minerals.
- Capex spending for metal ores such as copper, gold, iron ore, coal, nickel, zinc and others during 2019 was estimated at \$85 bn out of which copper and gold accounted for 60% of capex spending at \$55 bn owing to the ore grades depletion. Lower ore grades are expected to drive higher capex within industry thereby presents positive outlook for companies manufacturing mining consumable products for copper and gold mining activity.
- Tega operates in a near oligopolistic market structure and has presence across the value chain of mineral processing site with a wide range of products and solutions. Mineral processing sites do not tend to switch to a substitute supplier even if alternate offered by a new entrant is at a comparatively cheaper rate, which is a plus point for Tega.
- The strong R&D capabilities have allowed Tega to register 8 global patents and several trademarks across the world. TIL have a well crafted manufacturing process leading to high quality production and ability to match diverse customer specifications. The flagship product "Dyna-Prime" has unlocked a new addressable market and has proved to be a market disruptor.
- On the financial front, revenue grew by a CAGR of 12.7% during FY19-FY21. TIL posted strong growth at 18% in FY21 on the back of robust 17% growth in global mill lining industry in FY21 as decreasing ore grades has led to a greater demand for larger-sized equipment. EBITDA margin improved to 23.3% in FY21 (15.3% in FY19) amid strict cost control measures. Net Profit rose to Rs134.6 cr in FY21 v/s Rs65.5 cr in FY20 as besides strong cost control, higher other income due to unsustainable activity (derivative and foreign currency gain (~Rs34 cr) also contributed to the bottom line. Meanwhile, the company posted sluggish performance in Q1FY22 on profitability as well as on margin fronts.
- In terms of the valuations, on the higher price band, TIL demands a P/E multiple of 22.0x based on FY21 post issue fully diluted EPS.
- Being the 2nd largest producer of polymer-based mill liners in the world, TIL has highly diversified revenue stream from various geographies of the world. The company also plans to expand its manufacturing services both in India and overseas. Moreover, their deep relationships with some of the world's largest senior miners and order book of Rs. 316.14 crore as of June 30, 2021 allows them significant visibility to plan for future growth. Considering the market entry barriers, positive global outlook, long term relationships with key customers, high profitability and strong backing of the promoter group, TIL has strong growth prospects in the long term. Hence, it is recommended to "SUBSCRIBE" the issue from the long term perspective.

Revenue from Operations

	FY19		FY20		FY21		Q1FY22	
	Revenue (Rs. Cr)	% of Total	Revenue (Rs. Cr)	% of Total	Revenue (Rs. Cr)	% of Total	Revenue (Rs. Cr)	% of Total
Category-wise								
Sale of Products	595.3	93.9%	650.6	95.0%	773.7	96.1%	163.8	94.6%
Sale of Services	19.1	3.0%	13.4	2.0%	13.2	1.6%	5.8	3.3%
Other Operating Revenue	19.3	3.1%	20.8	3.0%	18.6	2.3%	3.7	2.1%
- Sale of scrap	2.7	-	2.7	-	4.0	-	1.0	-
- Commission income	1.3	-	1.3	-	1.6	-	0.3	-
- Duty drawback & export incentives	14.5	-	15.8	-	11.9	-	2.0	-
- Service Fees	0.9	-	1.0	-	1.1	-	0.3	-
Total for Revenue from Operations	633.8	100.0%	684.9	100.0%	805.5	100.0%	173.2	100.0%

Geographical Break-up

Outside India	544.0	85.8%	588.5	85.9%	696.1	86.4%	146.0	84.3%
- North America	61.9	9.8%	90.8	13.3%	110.7	13.7%	30.6	17.7%
- South America	138.8	21.9%	164.3	24.0%	199.1	24.7%	33.0	19.1%
-EMER (Europe, Middle East & Russia)	95.6	15.1%	146.7	21.4%	124.8	15.5%	24.6	14.2%
- Africa	144.8	22.9%	108.8	15.9%	182.2	22.6%	36.7	21.2%
- Asia Pacific (South East Asia & Australia)	102.8	16.2%	77.8	11.4%	79.3	9.9%	21.2	12.2%
In India	70.5	11.1%	75.6	11.0%	90.8	11.3%	23.5	13.6%
Total for Sale of Products and Services	614.4	97.0%	664.0	97.0%	786.9	97.7%	169.6	97.9%
Total for Revenue from Operations	633.8	100.0%	684.9	100.0%	805.5	100.0%	173.2	100.0%

Installed Capacity, Actual Production and Capacity Utilization

Unit	FY19			FY20			FY21		
	Installed Capacity in MT	Actual Production in MT	% Utilization	Installed Capacity in MT	Actual Production in MT	% Utilization	Installed Capacity in MT	Actual Production in MT	% Utilization
Dahej	8,173	4,391	54%	8,538	5,485	64%	9,633	4,899	51%
Samali	6,449	2,976	46%	6,449	2,859	44%	6,449	3,897	60%
Kalyani	2,008	1,707	85%	2,008	1,616	80%	2,008	1,430	71%
South Africa	3,192	1,049	33%	3,192	1,219	38%	3,192	1,643	51%
Chile	1,164	1,125	97%	2,490	1,800	72%	3,276	2,400	73%
Over all	20,986	11,248	54%	22,677	12,979	57%	24,558	14,269	58%

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21	Q1FY22
Share Capital	57.6	57.6	57.6	57.6
Net Worth	401.1	462.5	613.7	631.2
Long Term Borrowings	59.7	95.1	86.2	81.7
Other Long Term Liabilities	32.9	44.8	41.5	41.9
Short-term borrowings	153.0	148.8	101.6	102.6
Other Current Liabilities	143.6	136.1	175.4	198.8
Fixed Assets	288.1	274.5	303.0	306.4
Non Current Assets	293.5	93.5	92.6	77.5
Current Assets	437.9	519.3	622.7	672.2
Total Assets	790.3	887.3	1018.3	1056.2
Revenue from Operations	633.8	684.8	805.5	173.2
Revenue Growth (%)		8.1	17.6	
EBITDA	96.7	106.5	187.5	23.5
EBITDA Margin (%)	15.3	15.6	23.3	13.6
Net Profit	32.7	65.5	136.4	11.9
Net Profit Margin (%)	5.2	9.6	16.9	6.9
Earnings Per Share (Rs.)	4.9	9.8	20.5	1.8
Return on Networth (%)	8.1	14.2	22.2	1.9
Net Asset Value per Share (Rs.)	68.1	78.8	105.0	108.1

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21	Q1FY22
Cash flow from Operations Activities	68.7	128.4	170.2	49.2
Cash flow from Investing Activities	(13.4)	(101.3)	(79.7)	(20.6)
Cash flow from Financing Activities	(93.2)	(9.2)	(79.0)	(11.9)
Net increase/(decrease) in cash and cash equivalents	(38.0)	17.9	11.5	16.8
Cash and cash equivalents at the beginning of the year	57.7	19.3	36.9	47.9
Cash and cash equivalents at the end of the year	19.3	36.9	47.9	64.6

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Tega Industries Ltd.	805.5	23.3	0.3	25.3	22.2	22.0	4.8	16.7	3.7	3003.1
AIA Engineering Ltd.	2881.5	28.8	0.0	17.9	14.2	29.9	3.9	19.6	5.5	17385.1

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