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Moreover, their deep relationships with some of the world's largest senior miners and order book of ₹316.14 crore as of June 30, 2021 allows them significant visibility to plan for future growth. The company is net debt free as on June 2021.

The issue is available at PE of 18.80x for FY21, which looks attractive. The company has shown strong growth potential in the past 3 years. Thus, we recommend to subscribe for listing as well as long-term gains to the issue.



About the Company :

Tega Industries Limited ("Tega") was incorporated on May 15, 1976. Tega commenced their operations in 1978 in India, with a foreign collaboration with Skega AB, Sweden. The company 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. Globally, they are the 2nd largest producers of polymer-based mill liners, on the basis of revenues as of June 30, 2021.

Issue details

Price Band (Rs in per share)	443 - 453
Fresh Issue (in Rs. crore)	Nil
Offer for Sale (Rs in Crore)	606-619
Total Issue size (in Rs. crore)	606-619
Issue open date	01-12-2021
Issue close date	03-12-2021
Tentative date of Allotment	08-12-2021
Tentative date of Listing	13-12-2021
Total number of shares (lakhs)	136.69
No. of shares for QIBs (50%) (lakhs)	68.35
No. of shares for NII (15%) (lakhs)	20.50
No. of shares for retail investors (35%) (lakhs)	47.87
Minimum order quantity	33
Face value (in Rs)	10.00
Amount for retail investors (1 lot)	14,619-14,949
Maximum number of shares for Retail investors at lower Band	429 (13 Lots)
Maximum number of shares for Retail investors at upper band	429 (13 Lots)
Maximum amount for retail investors at lower Band- upper band (in Rs)	1,90,047-1,94,337
Exchanges to be listed on	BSE, NSE

Promoters

Madan Mohan Mohanka
Manju Mohanka
Manish Mohanka
Mehul Mohanka
Nihal Fiscal Services Private Limited

Objective of the Offer

The objects of the Issue are:

- Carry out the Offer for Sale of up to 13,669,478 Equity Shares (9,691,890 Equity Shares by PE investor and 39,77,588 Equity Shares by Promoter).
- Achieve the benefits of listing the Equity Shares on the Stock Exchanges.

**Brief Financials ***

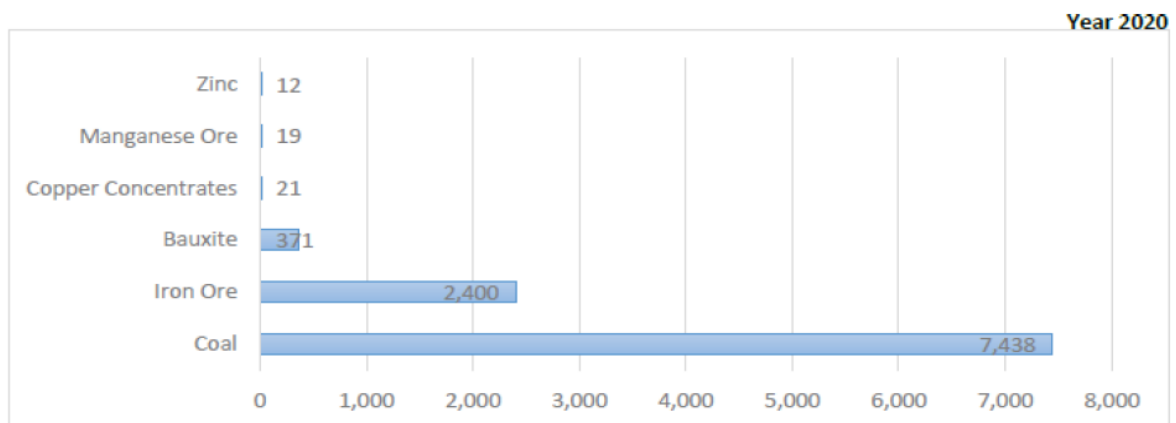
Particulars (Rs. Cr)	Q1FY22	FY21	FY20	FY19
Equity Share Capital	57.60	57.60	57.6	57.6
Preference Share Capital	8.69	8.69	8.69	8.69
Reserves	564.86	547.43	396.20	334.81
Net worth as stated	631.15	613.72	462.49	401.11
Revenue from Operations	173.21	805.52	684.85	633.76
Revenue Growth (%)	-	17.62%	8.06%	-
EBITDA as stated	29.68	238.64	117.23	106.00
EBITDA Margin (%) as stated	16.54%	27.86%	16.85%	16.49%
Profit Before Tax	16.18	183.86	59.24	46.46
Net Profit for the period	11.88	136.41	65.50	32.67
Net Asset Value (₹)	108.06	105.04	78.78	68.13
PE (₹) #	53.93^	18.80	-	-
Basic EPS (₹)	8.40^	24.10	-	-

Source: RHP, * Restated financial statements, # Calculated at the upper price band, ^annualised price/EPS

Industry Overview**Global Mining Industry**

In 2020, Asia-Pacific accounted for 71% of the global mining industry, followed by North America with 9%. The mining market consists of companies (organizations, sole dealers, and partnerships) that harvest rocks, commodities, and other useful resources (ferrous and nonferrous metals, sand and gravel, coal, and so on) from the Earth's crust. BHP Billiton Ltd, Glencore Plc, Vale SA, Rio Tinto Group, and CRH Plc are the leading participants in the mining industry.

Global commodity mineral production during 2020 was 10.2 billion tons, with coal and Iron (2 largest minerals mined worldwide) accounting 96% of total production. Silver is the most mined precious metal accounting for 86% of total precious metal mined and is found close to Zinc deposits, while Gold is found mostly near copper mines.

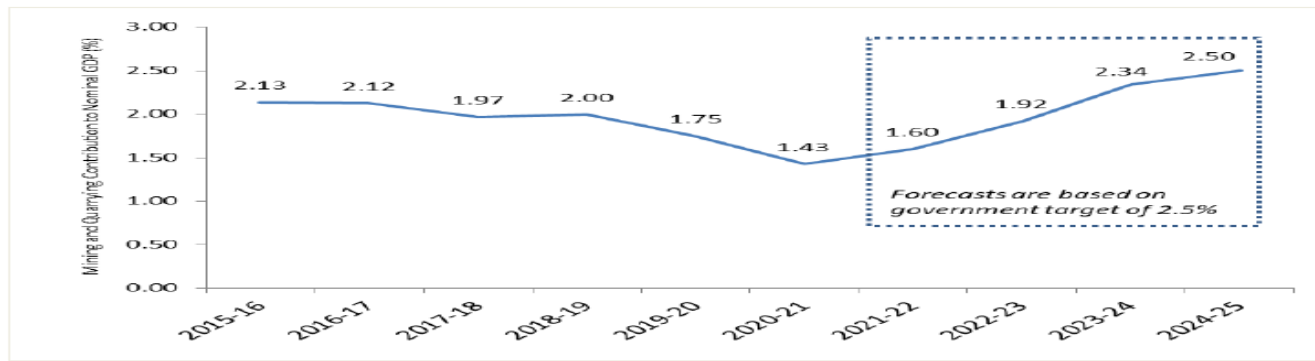
Exhibit 6: Global Key Commodity Minerals Production (Million Tons)

Source: ICSG, USGS; IEA

Source: RHP

Indian Mining Industry

The GDP contribution of the mining and quarrying sector, both in terms of nominal and real GDP, has declined over the last decade. In regards to nominal GDP, as can be seen from the chart below, the share of mining and quarrying declined from 2.13% in 2015–2016 to 1.75% by 2019–2020; the goal of the government is to raise the share from 1.75% to 2.50% (*The Hindu; Financial Express; India Today*). A timeline for this 2.5% commitment, however, is not clear, with 2024–2025 assumed as the timeline, in line with the government's 2024–2025 vision of becoming a \$5 trillion economy.

**Exhibit 12: Mining and Quarrying Contribution to Nominal GDP, India, 2015–2025**

Source: RHP

Macroeconomic Trends & Developments in India

Indian Mining Structural Reforms 2021

The 2021 approval of the Mines and Minerals (Development and Regulation) Amendment Bill should help pave the way for increased domestic production and curtailed imports, increased private sector participation, and higher mining employment. Another reform is in regard to captive mines for which end use was previously restricted to the mine leaseholder. The provision now opens up the sale of 50% of the mineral production to the open market, with 50% of the production to be used in the company plant.

Opening Up for Commercial Coal Mining

In 2020, the government fully allowed for commercial coal mining, essentially allowing private players to enter into coal mining and sales. No restrictions were placed on the end use of the coal (that is, the coal could be used in plants or sold in markets). 19 coal mines were awarded through auctions in 2020, with another 67 coal mines put up for auction in March 2021 (Financial Express; The Hindu Business Line). The government views coal as a pivotal contributor to the vision of becoming a \$5 trillion economy.

Targeted Tripling of Gold Production

The goal of Hutti Gold Mines Limited, India's sole gold producer and owned by the state government of Karnataka, is to nearly triple gold production from 1,700 kilograms/annum in Q1 2021 to 5,000 kilograms/annum by mid-2021 (Financial Express). In tandem with the targeted production increase, the Karnataka government is looking to establish jewelry stores with the support of private sector tieups, which should help drive gold demand.

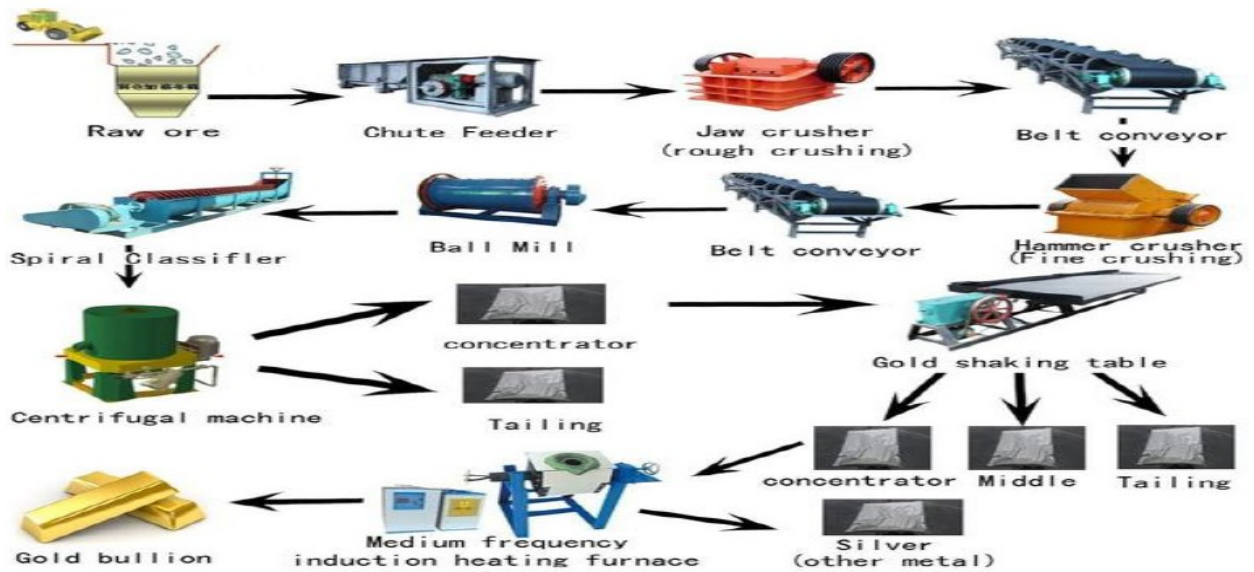
Government Spending Plans

\$1.5 Trillion (₹111 Lakh Crore) under National Infrastructure Pipeline: Infrastructure is set to help India become a \$5 trillion economy by the fiscal year 2024–25 (Financial Express). The National Infrastructure Pipeline entails \$1.5 trillion in infrastructure expenditure (fiscal year 2020–2025), with the central and state governments undertaking 79% of the capital expenditure (the remaining being private expenditure) (Task Force on National Infrastructure Pipeline). Energy and roads account for 24% and 18% of CapEx, respectively (Task Force on National Infrastructure Pipeline). As of December 2020, 40% of the projects under the National Infrastructure Pipeline were reported to have been under implementation (Task Force on National Infrastructure Pipeline).

Target of Raising Public Healthcare Spending Share to 2.5% of GDP: The Indian government's expenditure on health was 1.6% of GDP during the 2019–2020 period and similar to the preceding years. In contrast, the figure for the European Union was 7.0% of GDP for 2019 (Press Information Bureau, Government of India; Eurostat).

\$26.9 Billion (₹1.97 Lakh Crore) on Production-Linked Incentive (PLI) Schemes: Introduced in 2020, the PLI schemes entail an incentive tied to incremental sales from domestic manufacturing. The scheme is expected to be a major driver in attracting global supply-chains and fortifying India's manufacturing position over the next five years (2021–2025). The government expects to generate \$520 billion in new manufacturing from PLI over the next five years (The Economic Times).

Mineral Beneficiation Industry



Source: RHP

Crushers: Crushers are machines primarily used to reduce the size of rocks, stones, and ore and are widely used in mining operations, aggregates production, and construction material recycling.

Screening: Screening is used to separate the granulated ore into multiple grades by particle size. Screens can be horizontal, rotary, or vibrating; based applications, they are further classified into dewatering screens, grizzly screens, single - and double-deck linear screens, and banana screens.

Screening is also known as comminution, a process by which ore is further reduced to minute particles; this is followed by sizing, concentration, and dewatering.

1. Comminution: particle size reduction
2. Sizing: separation of particle sizes by screening or classification
3. Concentration by physical and surface chemical properties
4. Dewatering: solid/liquid separation

Concentration

Different mineral properties required different mineral processing methods. The common ore dressing methods are gravity concentration, flotation, magnetic separation, electric separation, chemical dressing, and so on.

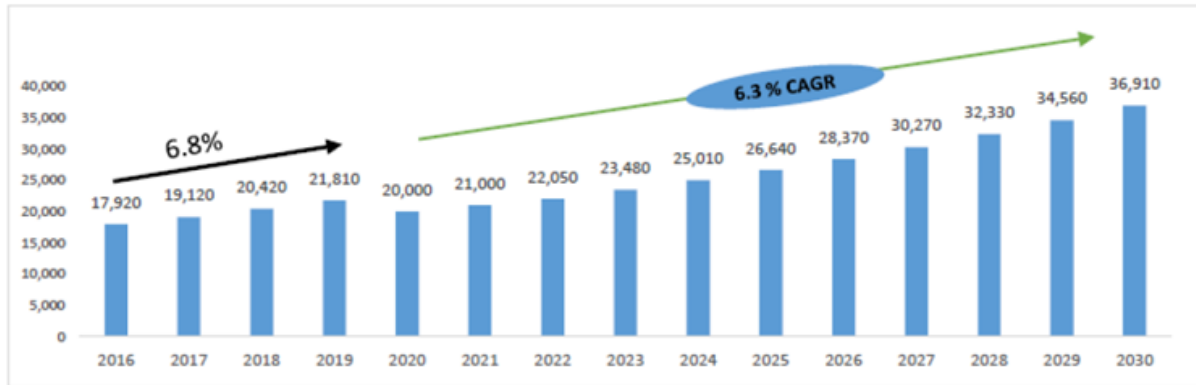
1. Gravity beneficiation or gravity concentration is the process of separating minerals as per the density and velocity of the medium.
2. Flotation is a mineral processing method that uses the various physical and chemical properties of mineral surface to separate minerals.
3. Magnetic separation is the key process in iron ore beneficiation, especially magnetite ore and manganese ore.
4. Electric Beneficiation uses high-voltage electric field to separate the particles. This method is widely used for processing fine- grained minerals.
5. Chemical Beneficiation is where various chemical processes are employed to separate mineral particles when physical separation processes do not work.



Overview of the Global Mineral Processing Industry

Global crushing, screening, and mineral processing equipment market size was estimated at \$20 billion in 2020. The market was growing at a CAGR of about 7% until 2019 but due to the COVID-19 pandemic, the overall demand declined in 2020. The industry is likely to recover in 2022 and is forecast to reach \$36.9 billion by 2030, growing at a CAGR of 6.3%.

Global Mineral Processing Industry Market Size (Million Tons)



Source: RHP

The demand for iron ore, copper, and other metals and minerals will drive the growth of the mineral processing equipment industry, while electric vehicle manufacturing will be the top demand driver for copper, aluminum, and other metals. Owing to ore grade depletion, miners are required to process more ore to get the desired yield, which will boost the demand for mineral processing equipment.

The Global Mill Liner Industry

A mill is a machine that grinds, cuts, and crushes solid materials into useable sizes for further processing. Crushed ore is fed into mills where it is ground down to a desired particle size; mills are used widely to process raw materials in a variety of sectors. Mill liners fundamentally protect mills from the wear that comes with grinding harsh raw materials. Mill liners are used to improve a mill's performance, efficiency, and longevity; however, not all mill liners are made equal, even though they all serve the same purpose. Mill liners can be metallic, rubber or composite materials. The type of grinding media as well as the desired output of media is an important consideration in selecting the type of mill liners.

Global Competitors

S.No	Mill Liner Manufacturer	Manufacturing Locations Country	Market Share 2020	Revenue (Mn \$) 2020	Market Share 2019	Revenue (Mn \$) 2019	Market Share 2018	Revenue (Mn \$) 2018
1.	Metso-Outotec* (Metso Outotec was formed by merger of Metso Minerals and Outotec on June 30, 2020. Revenue of Metso Outotec is captured for 2020 and comparable revenue of Metso and Outotec in 2019 as per their financial report. Financial of Metso and Outotec prior to 2019 are non relevant here)	Finland, India, Argentina, Australia, US, Peru, Brazil, Chile, Estonia, Belarus, Indonesia, Kazakhstan, Paraguay, Norway, Russia, South Africa, Sweden, UK and Uzbekistan	17%	300	16%	293	15%	-
2.	Me Elecmetal	Chile, US, China, and Zambia	13%	230	15%	265	15%	281
3.	Bradken	Australia, China, Canada & Malaysia	9%	163	10%	180	10%	188
4.	PT Growth	Indonesia, China, Australia, Ghana, South Africa, Chile, Peru and Mexico	5%	83	4%	79	4%	78
5.	Tega Industries	India, Chile, South Africa and Australia	5%	80	4%	68	3%	55
6.	FLSmidth	China, India and Poland	3%	54	2%	50	1%	49
7.	Uralcem	Russia	2%	31	3%	28	3%	27
8.	Weir Group	Poland, US, Mexico, Colombia, India, China, South Africa, Brazil, Peru, Chile	2%	30	2%	28	2%	28
9.	Rema Tip Top	Germany & China	2%	30	1%	27	2%	28
10.	Polycorp	Mali, Mongolia & Russia	1%	25	1%	23	1%	24
11.	Chinese Manufacturers	China	23%	400	25%	457	28%	522
12.	RoW: Others	RoW: Chile, Peru, USA, and South Africa	18%	307	17%	305	16%	300
Total			100%	1,733		1,803		1,866



Competitive Strengths

A leading producer of specialized and “critical to operate” products, with high barriers to replacement or substitution

Company’s products are critical to the overall productivity of a mineral processing site. They are a relatively low cost component in a unit’s operations; however, they play a critical role in determining a unit’s productivity, in terms of throughput, lower grinding media consumption, lower energy consumption and lower downtime, leading to lower operating costs for their customers. Downtime can be expensive for their customers at the mining sites, which leads to substantial losses to them.

Insulated from mining capex cycles, as the products cater to after-market spends, providing recurring Revenues

Company’s products cater to the after-market spend of a mining processing unit. After-market spend is typically 3 times of the upfront capex spend over the lifecycle of a mill, and is a recurring cost for miners. After-market spend for a mining processing unit comprises regular operating expenses which include costs of wear and separation parts, grinding media, power consumption, liners and other regular operating expenses. As a result, 76.28%, 74.29%, 75.43% and 79.72% of their sale of products and services in 3 months period ended June 30, 2021 and last 3 Fiscals 2021, 2020 and 2019 resulted from repeat orders of spares.

High value add and technology intensive products, backed by strong R&D and focus on quality control

Company’s in-house R&D and manufacturing capabilities, including design, process engineering and manufacturing facilities, allow them to turn around customized designs in a short time frame, offer comprehensive solutions and better service standards and cross sell multiple products to their customers. Their continuous design innovation makes their products highly engineered “built-to-suit” rather than “off-the-shelf”, with their products being unique for each customer site taking into account multiple characteristics of its application.

Long standing market player with marquee global customer base and strong global manufacturing and sales capabilities

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 ₹316.14 crore 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 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.

Consistent growth, characterized by operational efficiency and high repeat business

Company’s business operated with 60.42%, 59.80%, 60.02% and 59.39% material margins and 16.54%, 27.86%, 16.85% and 16.49% EBITDA margins in the 3 months period ended June 30, 2021, Fiscals 2021, 2020 and 2019, respectively. 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) for the Fiscal 2021 and ROCE of 24.76% for Fiscal 2021. 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.

Experienced management team supported by large, diverse and skilled work force

Company’s Promoter, Founder and Chairman, Madan Mohan Mohanka, is a civil engineer and first-generation entrepreneur with over 44 years of industry experience, and strong relationships with several key industry organizations. The Promoter and Managing Director, Mehul Mohanka, who has been with the company for over 18 years and is responsible for their overall corporate strategy, has a track record of successfully integrating multiple acquisitions across geographies, including Chile, South Africa and Australia. Mehul Mohanka is also serving or has served as chairpersons of key industry organizations.

Their global workforce comprised of 1,698 employees (905 permanent and 793 contractual) as of June 30, 2021. Out of their total white collar employees, they have over 151 engineers and other technical employees. As on June 30, 2021, 22.44% of their workforce is overseas, divided into 18 dedicated regional teams. The diversity of their workforce allows them to optimally manage their overseas operations.



Risk Factors

Geopolitical Factors

Social, political, geopolitical conditions and adverse weather conditions, such as natural disasters, civil disturbance, terrorist attacks, war or other military action would affect the business and operations. For instance, such a disruption may prevent us from production or delivery of its products to the customers

Economic Downturn

Economic and financial conditions, including potential 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 the company's business and operations.

Change in Government Policies

Changes in local laws, regulations or policies, including restrictions on trade, unfavorable labour regulations, tax policies or economic sanctions, intellectual property enforcement issues and changes in foreign trade and investment policies, may be difficult to predict and may affect the way in which the company operates.

Shortage of Skilled Workforce

Difficulties in organizing a skilled workforce for efficient operations and coordinating with local authorities and representatives to fully understand and address local labour and business requirements may cause difficulty in hiring and retaining company's workforce in the countries in which it operates.

Shortage of Raw Materials

The company is dependent on third party logistic and support service providers for the delivery of raw materials and finished products and any disruptions in their services including transportation services or a decrease in the quality of their services may adversely affect the business, financial condition and results of operations.

Peer Comparison

Company	Face Value	Total Income for FY-2021 (₹ Cr)	EPS (Basic)	NAV	PE	RoNW (%)
Tega Industries Ltd	10	856.68	24.10	105.04	18.80	22.23%
AIA Engineering Ltd	02	3,053.69	60.02	449.99	30.71*	13.33%

*PE as on closing price of 29-Nov-2021, All the financial information for listed industry peer mentioned above is on a consolidated basis and is sourced from the audited financial results of the company.

OUR VIEWS

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Sources: Company Website and red herring prospectus



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