



Choice

Nurturing Financial Excellence

IPO REPORT

“Subscribe” to
Tega Industries

‘Strong fundamentals; operating in niche segment’

Salient features of the IPO:

- Tega Industries Limited (TIL)** is a leading manufacturer and distributor of specialized 'critical to operate' consumables products for the global mineral beneficiation, mining and bulk solid handling industry.
- The company focus end-customers are minerals processing sites involved in gold and copper ore beneficiation.
- TIL reported sales of Rs806 cr and PAT of Rs136 cr in FY21

Competitive Strengths

- A leading producer of specialized and 'critical to operate' products with high barriers to replacement or substitution
- Insulating from mining capex cycles as products cater to after- market spends providing recurring revenue
- High value add and technology intensive products backed by strong R&D and focus on quality control

Valuation: At the higher price band of Rs453, the issue is priced at P/E of 22x on FY21 EPS.

Below are few key observations of the issue: (continued in next page)

- Global crushing, screening and mineral processing market size was estimated at \$20 bn in 2020. Industry is forecast to grow at a CAGR of 6.3% and to reach market size of \$36.9 bn by 2030. 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. Global mill liner demand is forecast to increase at a CAGR of 5.8% to \$3.1 bn in 2030 from \$1.7 bn in 2020. 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 their ore grades depletion. Lower ore grades are expected to drive higher capex within in industry thereby presents positive outlook for companies manufacturing mining consumable products for copper and gold mining activity.
- Tega Industries Limited (TIL), incorporated in 1976, is a leading manufacturer and distributor of specialized consumable products for the global mineral beneficiation, mining and bulk solid handling industry. The company has portfolio of more than 55 products which are used by customers across different stages of mining and mineral processing, screening, grinding and material handling. TIL is the 2nd largest producer of polymer based mill liners and only player providing a hybrid liner across both large SAG mill & Ball mill.
- The company has six manufacturing sites which comprise three in India (Dahej, Samali and Kalyani) and other three units in major mining hubs Chile, South Africa and Australia. Average capacity utilisation level of manufacturing units stood at 58% in FY21.
- The company focus end-customers are minerals processing sites involved in gold and copper ore beneficiation accounting for 34.9% and 27.3% respectively of revenue as an average of FY19-FY21.
- On products specific categories front, in the sequence of their usages in the minerals processing mines, after blasting to floatation, TIL's products include chutes and its liners, grinding mill liners, trommels and screens, hydrocyclones, pumps and flotation parts and conveyor products.

Rating	Subscribe
Price Band	Rs443 - Rs453 per share
Face Value	Rs10 per share
Fresh Issue Size	Nil
Share for OFS	1.367 cr
OFS Issue Size (at higher price band)	Rs619 cr
Total Issue Size	Rs619 cr
Bidding Date	Dec 01' 2021 - Dec' 03' 2021
MCAP (at higher price band)	Rs3,003 cr
Enterprise Value	Rs3,156 cr
Book Running Lead Manager	Axis Capital Limited, JM Financial Limited
Registrar	Link Intime India Private Limited
Industry	Mining Consumable Products

Retail application money at higher cut-off price per lot	
Number of shares per lot	33
Application Money	Rs14,949 per lot

Allocation Detail	
Qualified Institutional Buyers (QIB)	50%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	35%

Shareholding Pattern		
	Pre-Issue	Post Issue
Promoters & promoters group	85.2%	79.2%
Public	14.8%	20.8%
Total	100.0%	100.0%

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- Company flagship products include Dyna Prime, Dyna Pump, Dyna Steel and Dyna Wear which are used in grinding mills. TIL introduced key flagship product namely Dyna Prime in 2018 which is a composite liner of rubber and steel and is targeted towards large mineral processing units which historically relied on traditionally used steel liners. Dyna prime has unlocked a new addressable market for the company due to its multi-faceted advantages over the traditional steel liners.
- The company's business is insulated from capex cyclicality of mining players as majority of products are linked to operating expenditure budget of a mining site (after market spend) and not capex. After-market spend is typically three times of the upfront capex spend over the lifecycle of a mill, and is a recurring cost for miners.
- Since the company primarily caters to after market spend of a mining processing unit, ~75% of business the company garners from repeat orders and spares. As TIL's products while relatively low cost component in units operations, play a critical role in determining the miner profitability in terms of throughput, lower grinding media consumption among others. Thereby miners ordinarily refrain from switching and remain with an existing supplier giving pricing power to supplier like TIL.
- As per the company, there are strong entry barriers in this line of business as it takes 9-12 months to become the approved supplier due to requirement of high quality products which are critical to mineral processing site (high opportunity cost per hour of downtime for customer). Furthermore, elevated cost of initial planning and high degree of certainty of products also play key entry barriers for competitors. Thus, there are limited number of players of established players with top 5 producers capturing 49% of global market share.
- **Operating 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 (other expenses) which we think unlikely to sustain in coming future with building inflationary pressure in global economy. PAT 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.**
- **Net D/E stood at comfortable level at 0.2x. As the initial capex has been done, ongoing capex is likely to be funded with internal accruals. OCF margin remained healthy at an average of 17% during FY19-FY21 while RoE at 14.8% during the same period.**
- **At the higher price band of Rs453, the issue is priced at P/E of 22x on FY21 EPS. Based on our quick estimates, we project revenue of Rs1,175 cr in FY24E, though bottom-line growth is likely to remain contained with normalisation of EBITDA margin amid rising cost pressure. Mentioned peer, as per RHP, namely AIA engineering is currently trading at P/E of 30x. On P/Sx basis, at demanded valuation of Rs3,003 cr, the issue is available at P/Sx of 2.9 on FY23E compared to AIA Engineering of P/Sx of 4.7 FY23E.**
- **Business growth prospect appears optimistic given the TIL's presence in consumable products required for mining process of gold and copper whose ore is depleting at higher pace and have strong demand drivers due to higher usages in electronics and EV. Stable fundamentals, long term visibility of revenue, niche operating segment and lower competition are key business positives which drive our optimism. Considering all above parameters, we assign 'Subscribe' rating to the issue.**

Peer valuation

Companies	CMP (Rs/s)	6M (R%)	12M (R%)	M Cap (Rs cr)	EBIDTA Mar. (%)	NPM (%)	RoE (%)	RoA (%)	Sales CAGR FY19-FY21	EPS (Rs/sh)	BVPS (Rs/sh)	EV (Rs cr)
Tega Industries	453	-	-	3,003	23.3%	16.9%	22.2%	13.4%	12.7%	20.6	92.6	3,155.5
AIA Engineering	1,861	-4.3%	-3.0%	17,548	21.5%	18.5%	13.1%	11.4%	-3.1%	61.5	471	16,686.7

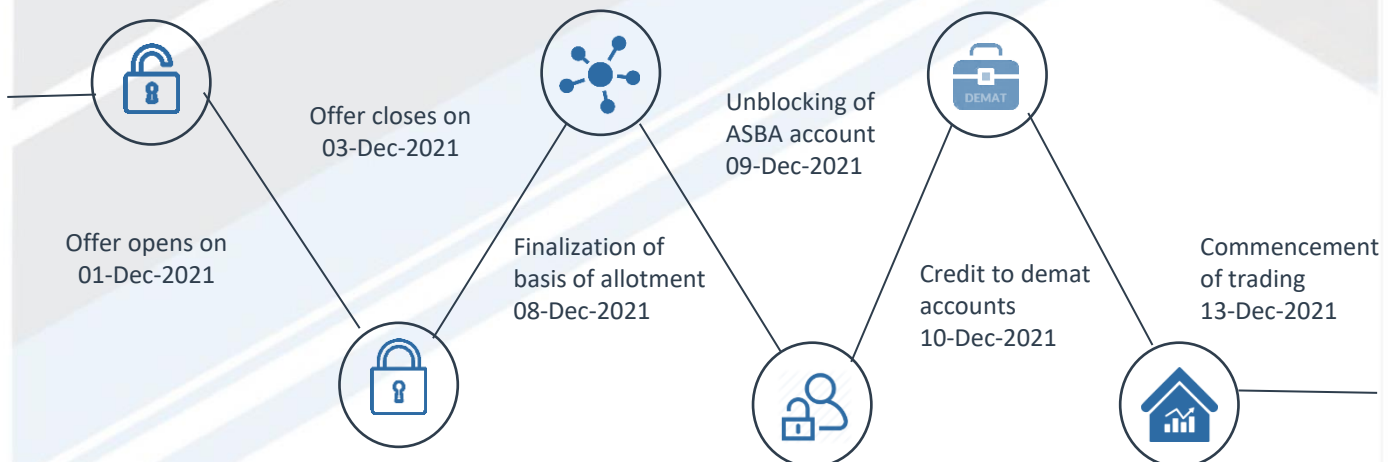
Companies (Rs cr)	P/E (x)	P/BV (x)	P/S (x)	EV/EBIDTA (x)	EV/Sale (x)	D/E	Net Worth	Share Capital	Sales FY21	EBIDTA FY21	PAT FY21	Total Assets
Tega Industries	22.0	4.9	3.7	16.9	3.9	0.4	573.6	57.6	806	187	136	1,056
AIA Engineering	30.3	4.0	5.6	24.7	5.8	0.1	4,441	19	2,881	659	566	4,758

* - Tega industries - valuation on FY21 financial basis, latest reported net worth as of Q1FY22

About the issue:

- Tega Industries Limited (TIL) is coming out with initial public offering of 1.367 cr shares
- TIL's IPO is 100% offer for sale (OFS). Promoters are participating in the OFS
- Price band for the IPO is fixed at Rs443-Rs453 cr.
- At the higher price band of Rs453, OFS size is stood at Rs619.2 cr. Since the issue is 100% OFS, the company will not receive any proceed from the issue
- Issue will open for subscription on Dec 01' 2021 and close on Dec 03' 2021
- Post issue, share of promoter and promoter group will reduce to 79.2% from 85.2%.
- One private equity player namely Wagner Limited (as a shareholder) is participating with 0.97 cr shares sale through the OFS. Wagner Limited is fully exiting the company.
- Not more than 50% of the net offer shall be available for allocation on a proportional basis to qualified institutional investors (QIIs).
- Further not less than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not less than 35% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- Average cost of acquisition of equity shares for selling shareholders namely Madan Mohan Mohanka, Manish Mohanka and Wagner Limited is Rs0.53, 0.34 and Rs170.25 per share.
- Weighted average cost of acquisition is Rs140 per share for last one year and Rs117 per share for the last three years.

Indicative IPO process time line:



Company Introduction and Business Overview:

Tega Industries Limited (TIL) is a leading manufacturer and distributor of specialized mining equipment for the global mineral beneficiation, mining and bulk solid handling industry. The company product portfolio comprises more than 55 mineral processing and material handling products. Wide product portfolio include specialized abrasion and wear-resistant rubber, polyurethane, steel and ceramic based lining components, used by customers across different stages of mining and mineral processing, screening, grinding and material handling. Sale of mineral processing and material handling products constitutes 95% of the total operating revenue in FY21. Furthermore, the company generates ~85% of the revenue through exports include North America, South America, EMER (Europe, Middle East and Russia), Africa, and Asia Pacific (South East Asia and Australia) which constituted 13.7%, 24.7%, 15.5%, 22.6% and 9.8% of revenue in FY21.

In the last three fiscals, the company has presence in 513, 498 and 479 installation sites, respectively, in over 70 countries. The company focus end-customers are minerals processing sites involved in gold and copper ore beneficiation accounting for 34.9% and 27.3% respectively of revenue as an average of the last three fiscals. The company has six manufacturing sites which comprise three in India (Dahej, Samali and Kalyani) and other three units in major mining hubs Chile, South Africa and Australia with a total built-up area of 74,255 sq. mtr.

Operating revenue grew by a CAGR of 12.7% to Rs806 cr in FY21 from Rs634 cr in FY19. While the company shown a significant improvement in margin profile as EBITDA margin improved to 23.3% in FY21 as compared to 15.3% in FY20. Average PAT margin stood at 10.5% over the last three fiscal years. RoE improved to 22.2% in FY21 as compared to 8.1% in FY19 while OCF margin stood at healthy level of 21% in FY21. Robust 18% growth in revenue, significant improvement in EBITDA margin and higher other income drove strong performance in the FY21.

Key Financials

Particulars (Rs cr)	FY19	FY20	FY21	CAGR (FY19-FY21)
Operating Rev.	633.8	684.8	805.5	12.7%
EBITDA	96.7	106.5	187.5	39.2%
PAT	32.7	65.5	136.4	104.3%
EBITDA Margin (%)	15.3%	15.6%	23.3%	
PAT Margin (%)	5.2%	9.6%	16.9%	
RoE (%)	8.1%	14.2%	22.2%	
RoA (%)	4.1%	7.4%	13.4%	
RoIC (%)	8.4%	13.2%	15.2%	
EV	3,226.9	3,244.2	3,174.3	
OCF	68.7	128.4	170.2	57.5%
OCF margin (%)	10.8%	18.7%	21.1%	
Free Cash Flow	-39.5	51.0	76.4	
Total Debt	243.5	278.0	219.7	
Net Debt	223.8	241.1	171.3	
Net Debt to EBITDA (x)	2.3	2.3	0.9	
Net Debt to Equity (x)	0.6	0.5	0.3	

Source: Choice Broking Research, RHP



Competitive strengths:

- A leading producer of specialized and 'critical to operate' products with high barriers to replacement or substitution
- Insulating from mining capex cycles as products cater to after-market spends providing recurring revenue
- High value add and technology intensive products backed by strong R&D and focus on quality control
- Long standing market player with marquee global customer base and strong global manufacturing and sales capabilities
- Consistent growth characterized by operational efficiency and high repeat business
- Experienced mgmt team supported by large, diverse and skilled work force

Business strategy:

- Gain market share and customer wallet share across high growth markets
- Leverage in-house R&D capabilities to grow product offering and capitalize on future trends
- Expand manufacturing capabilities to achieve better economic of scale
- Explore opportunities for inorganic growth
- Operational efficiencies and margin expansion



Risk and concerns:

- Exchange rate rise as exports constitute ~85% of total revenue
- Policy uncertainty risk
- Changing industry trends and technological advancement

Financial statements:

Rs Crore

Profit & Loss A/c

Particulars	FY19	FY20	FY21	Q1FY22
Operating Revenue (OR)	633.8	684.8	805.5	173.2
Cost of materials consumed	(265.0)	(284.7)	(328.2)	(76.4)
Employee Benefit Expenses	(111.4)	(115.3)	(122.7)	(35.0)
Other Expenses	(168.2)	(189.1)	(171.6)	(46.1)
EBITDA	96.7	106.5	187.5	23.5
Depreciation and Amortization Expenses	(37.8)	(38.4)	(40.2)	(10.5)
EBIT	59.0	68.2	147.3	13.0
Finance Costs	(23.6)	(21.4)	(17.3)	(3.6)
Other Income	9.3	10.7	51.2	6.2
Profit from JV		1.8		
PBT	46.5	59.2	183.9	16.2
Tax Expenses	(13.8)	6.3	(47.5)	(4.3)
PAT	32.7	65.5	136.4	11.9

Balance Sheet

Particulars	FY19	FY20	FY21	Q1FY22
Share Capital	57.6	57.6	57.6	57.6
Reserves and Surplus	343.5	404.9	556.1	573.6
Non-controlling interests	0.0	0.0	0.0	0.0
Long Term Borrowings	59.7	95.1	86.2	81.7
Lease Liabilities	24.4	24.8	23.8	26.2
Long Term Provisions	0.0	0.0	0.0	0.0
Short Term Borrowings	153.0	148.8	101.6	102.6
Short Term Lease Liabilities	6.5	9.3	8.1	7.6
Trades Payables	80.7	65.3	98.7	117.4
Other current liabilities	40.1	49.1	44.3	45.9
Short Term Provisions	11.9	10.9	14.6	16.9
Deferred tax liabilities (Net)	9.5	8.3	18.4	18.5
Total Liabilities	790.3	887.3	1,018.3	1,056.2
Tangible Assets	227.6	213.0	232.1	234.1
Intangible Assets	58.9	55.3	64.0	65.2
Capital Work In Progress	1.6	6.2	6.9	7.1
Tax assets (net)	18.8	41.8	37.4	38.2
Non-current financial assets	5.9	12.7	10.3	10.0
Other Non Current Assets	2.3	0.9	1.4	2.4
Inventories	121.1	132.6	158.6	207.9
Trade Receivables	210.3	185.2	220.9	169.8
Cash and Bank Balances	19.7	36.9	48.4	65.6
Current Investments	38.2	116.7	156.2	187.9
Other Current Assets	47.3	44.8	37.1	40.4
Total Assets	790.3	887.3	1,018.3	1,056.2

Source: Choice Equity Broking

Cash Flow Statement

Particulars	FY19	FY20	FY21	Q1FY22
Cash Flow from Operating Activities	68.7	128.4	170.2	49.2
Cash Flow from Investing Activities	(13.4)	(101.3)	(79.7)	(20.6)
Purchase of fixed assets and properties	(26.2)	(27.8)	(48.6)	(9.3)
Cash Flow from Financing Activities	(93.2)	(9.2)	(79.0)	(11.9)
Net Cash Flow	(38.0)	17.9	11.5	16.8
Opening Balance of Cash and Bank Balances	57.7	19.3	36.9	47.9
Closing Balance of Cash and Bank Balances	19.3	36.9	47.9	64.6

Financial Ratios

Particulars	FY19	FY20	FY21	Q1FY22
Growth & Margin ratios				
Revenue Growth Rate (%)		8.1%	17.6%	
EBITDA Growth Rate (%)		10.1%	76.0%	
EBITDA Margin (%)	15.3%	15.6%	23.3%	13.6%
EBIT Growth Rate (%)		15.6%	116.1%	
EBIT Margin (%)	9.3%	10.0%	18.3%	7.5%
Adjusted PAT Growth Rate (%)		100.5%	108.2%	
Reported PAT Margin (%)	5.2%	9.6%	16.9%	6.9%
Turnover ratios				
Inven. Turnover Ratio (x)	5.2	5.2	5.1	
Trade Rec. Turn. Ratio (x)	3.0	3.7	3.6	
Acc Payable Turn. Ratio (x)	7.9	10.5	8.2	
Fixed Asset Turn. Ratio (x)	2.8	3.2	3.5	
TA Turnover Ratio (x)	0.8	0.8	0.8	
WC Turnover Ratio (x)	0.0	3.4	2.3	
Operational ratios				
Current Ratio (x)	1.5	1.8	2.3	2.3
Debt to Equity (x)	0.6	0.6	0.4	0.3
Total Debt (Rs cr)	243.5	278.0	219.7	218.0
Net Debt (Rs cr)	223.8	241.1	171.3	152.4
Net Debt to EBITDA (x)	2.3	2.3	0.9	6.5
Net Debt to Equity (x)	0.6	0.5	0.3	0.2
Return ratios				
RoE (%)	8.1%	14.2%	22.2%	7.5%
RoA (%)	4.1%	7.4%	13.4%	4.5%
RoCE (%)	12.2%	11.7%	20.4%	7.0%
RoIC (%)	8.4%	13.2%	15.2%	
EV (Rs cr)	3,226.9	3,244.2	3,174.3	3,155.5
EV/Sales (x)	5.1	4.7	3.9	18.2
EV/EBITDA (x)	33.4	30.5	16.9	33.6
Per share ratios (Rs/sh)				
EPS	4.9	9.9	20.6	7.2
BVPS	60.5	69.8	92.6	95.2
OCF/sh	10.4	19.4	25.7	29.7
FCF/sh	-6.0	7.7	11.5	1.2
Valuation ratios				
P/E (x)	91.9	45.8	22.0	
P/BVPS (x)	7.5	6.5	4.9	
P/S (x)	4.7	4.4	3.7	
EV/EBITDA (x)	33.4	30.5	16.9	

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