

## Company Overview

Tega Industries Ltd commenced its operations in India back in 1978 along with its foreign collaboration with Skega Ab, Sweden. Globally it is the 2nd largest producer of polymer-based mill liners, on the basis of revenues as of June 30, 2021. They are the only player providing “hybrid liners” across larger semi-autogenous mill (SAG mills) and Ball Mills. Tega offers comprehensive solutions to marquee global clients in mineral beneficiation, mining, bulk, solids handling industry, through their wide range of 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 end focused industries are Copper and Gold, which comprise about 62% of their revenue. Tega has 6 manufacturing sites, including 3 in India and 3 sites in major mining hubs of Chile, South Africa and Australia, with a total built up area of 74,255 Sq Mts. They also have 18 global offices and 14 domestic sales offices located close to their key customers and mining sites. Tega has a track record of bringing multiple innovative products to the market, namely “Dyna-Prime”, “Rapido”, “Chutes” and “Trommels”

## Objects of the issue

The IPO proceed will be used towards the following purposes;

- ⇒ To achieve the benefits of listing of Equity shares on the Stock Exchange.
- ⇒ Offer for sale up to 13.6 mn equity shares.

## Investment Rationale

### Diverse global presence in an “entry barrier” market

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. Their strong R&D capabilities have allowed them to register 8 global patents and several trademarks across the world. They have a well crafted manufacturing process leading to high quality production and ability to match diverse customer specifications. Their flagship product “Dyna-Prime” has unlocked a new addressable market and has proved to be a market disruptor. They have a track record of successful acquisitions giving them a global footprint in over 70 countries. Majority of the company’s revenue comes from operations outside India, approx. 86.42% in FY21. As of June 30, 2021 their order book includes 28 target sites and is of value INR 3161.36 Mn.

### A strong management team driving the profitable business

The Company’s management team and board combine strong technical and industry experience and ensures optimum corporate governance. The Managing director and the Group CEO Mehl Mohanka has been with the company for over 18 years and is also the Co-chair of the National committee of mining of Confederation of Indian Industry. Their promoter Madan Mohan Mohanka has over 44 years of industry experience and has developed business relationships with key market players in the industry. Tega’s EBITDA margins have been 28% in FY21 and 16.5% in Q1FY22. Their revenue from operations have seen a CAGR of 12.74% from FY19 to FY21 and stands at INR 8055.22 Mn in FY21. Their profits have been INR 1364.05Mn(15.9%) and INR 118.82Mn(6.62%) in FY21 and Q1FY22 respectively. Their profitability margins are strong and have been on an upward trend. Their business is also capital efficient, with sale of products being 4.57 times of the property, plant and equipment for FY21 and with a return on capital employed being 24.8% for FY21. They cater to after market spends which gives them recurring revenue and such orders comprised of 74.3% of their revenue as of FY21. Also, their relation with their key customers span for more than 10 years, leading to higher repeat revenues.

## Valuation and Outlook

Tega has set a benchmark in the Global Mill Liner industry. They have experienced consistent growth with operational efficiency and high repeat business. Covid 19 has had a limited impact on their business since it was declared an essential service globally and hence Tega faced only limited logistical issues. Their profitability was therefore not impacted. Globally, due to ore grade depletion, miners are required to process more ore to get the desired throughput, which will boost the demand for mineral processing equipment. This is highly favorable for Tega’s business. At the upper price band, the stock is valued at 22x FY21 earnings (based on post-issue equity). Considering the market entry barriers, positive global outlook, high profitability and strong backing of the promoter group, we give this issue a “SUBSCRIBE” rating for the long term.

## Issue Details

Offer Period	1 <sup>st</sup> Dec - 3 <sup>rd</sup> Dec, 2021
Price Band	INR.443 to INR.453
Bid Lot	33
Listing	BSE&NSE
Issue Size (no. of shares in mn)	13.6
Issue Size (INR. in bn)	6.19
Face Value	10

## Issue Structure

QIB	50%
NIB	15%
Retail	35%
BRLM	Axis Capital and JM Financials
Registrar	Link Intime India Pvt. Ltd.

## Particulars Pre Issue % Post Issue %

Promoter	85.2%	79.2%
Public	14.8%	20.8%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

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## Income Statement (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
<b>Revenue</b>				
Revenue from Operations	6,338	6,848	8,055	1,732
<b>Total Revenue</b>	<b>6,338</b>	<b>6,848</b>	<b>8,055</b>	<b>1,732</b>
<b>Expenses</b>				
Raw Material Consumed	2,650	2,847	3,282	764
Changes in finished goods and stock-in-trade	(76)	(110)	(44)	(79)
Employee Benefit Expenses	1,114	1,153	1,227	350
Other Expenses	1,682	1,891	1,716	461
<b>Total Operating Expenses</b>	<b>5,370</b>	<b>5,783</b>	<b>6,180</b>	<b>1,497</b>
<b>EBITDA</b>	<b>967</b>	<b>1,066</b>	<b>1,875</b>	<b>235</b>
Depreciation and Amortisation Expense	378	384	402	105
Other Income	93	107	512	62
<b>EBIT</b>	<b>682</b>	<b>789</b>	<b>1,985</b>	<b>192</b>
Finance Costs	236	214	173	36
Share of restated net profit of joint venture	18	18	27	6
<b>Restated Profit before tax</b>	<b>465</b>	<b>593</b>	<b>1,839</b>	<b>162</b>
Current Tax	156	155	373	70
Deferred Tax Charge	(18)	(218)	102	(27)
<b>Total Tax</b>	<b>138</b>	<b>(63)</b>	<b>475</b>	<b>43</b>
<b>PAT</b>	<b>327</b>	<b>656</b>	<b>1,364</b>	<b>119</b>
<b>Diluted EPS</b>	<b>4.9</b>	<b>9.8</b>	<b>20.5</b>	<b>1.8</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
Cash Flow from operating activities	687	1,284	1,702	492
Cash flow from investing activities	(134)	(1,013)	(797)	(206)
Cash flow from financing activities	(932)	(92)	(790)	(119)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(380)</b>	<b>179</b>	<b>115</b>	<b>168</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>577</b>	<b>193</b>	<b>369</b>	<b>479</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>193</b>	<b>369</b>	<b>479</b>	<b>646</b>

Source: RHP, BP Equities Research



## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
<b>Liabilities</b>				
Share Capital	663	663	663	663
Other Equity	3,348	3,962	5,474	5,649
<b>Net worth</b>	<b>4,011</b>	<b>4,625</b>	<b>6,137</b>	<b>6,312</b>
Long-Term Borrowings	597	952	862	817
Lease Liabilities	244	248	238	262
Long-Term Provisions	34	133	89	83
Deferred Tax Liabilities (Net)	51	67	88	75
<b>Total Non Current Liabilities</b>	<b>926</b>	<b>1,400</b>	<b>1,277</b>	<b>1,236</b>
Borrowings	1,530	1,488	1,016	1,026
Lease Liabilities	65	93	81	76
Trade Payables	807	653	987	1,174
Other Financial Liabilities	128	156	126	122
Current Tax Liabilities	44	15	97	110
Short Term Provisions	119	109	146	169
Other Liabilities	274	335	316	337
<b>Total Current Liabilities</b>	<b>2,966</b>	<b>2,849</b>	<b>2,769</b>	<b>3,014</b>
<b>Total Liabilities</b>	<b>7,903</b>	<b>8,874</b>	<b>10,183</b>	<b>10,562</b>
<b>Assets</b>				
Property, Plant & Equipment	1,853	1,691	1,692	1,693
Capital Work in Progress	16	62	69	71
Goodwill	557	524	633	634
Intangible Assets under development	24	24	-	-
Other Intangible assets	7	5	7	18
Right of Use Asset	386	406	591	608
Financial Assets	211	294	285	100
Investment Property	37	33	38	41
Deferred Tax Assets (Net)	90	308	256	270
Investments accounted for using the equity method	235	245	269	276
Non Current Tax Assets (Net)	85	80	102	105
Other Non-Current Assets	23	9	14	24
<b>Total Non Current Assets</b>	<b>3,524</b>	<b>3,681</b>	<b>3,956</b>	<b>3,840</b>
Inventories	1,211	1,326	1,586	2,079
Investments	382.51	1,167	1,562	1,879
Trade Receivables	2,103	1,852	2,209	1,698
Cash and Cash Equivalents	193	369	479	646
Bank Balances	4	0	5	10
Other Financial Assets	45	31	42	52
Current Tax Assets	13	31	15	7
Other Current Assets	428	417	328	352
<b>Total Current Assets</b>	<b>4,379</b>	<b>5,193</b>	<b>6,227</b>	<b>6,722</b>
Net Current Assets	1,414	2,344	3,458	3,708
<b>Total Assets</b>	<b>7,903</b>	<b>8,873</b>	<b>10,183</b>	<b>10,562</b>

Source: RHP, BP Equities Research

### Key Risks

- ⇒ Their global manufacturing facilities, sales, operations exposes them to risks of doing business in the foreign countries, which may adversely affect their business and financial condition.
- ⇒ The company is dependent upon third party logistics and support services for delivery of raw materials and finished products and any disruption in their services including transportation services or reduction in their quality of service may adversely affect their business and operations.
- ⇒ They earn repeat revenues from their customers, specifically marquee customers, on the basis of long term relationships that they have established. The loss of any of their long term relationships or reduction in orders may adversely affect their business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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