Tega Industries | BUY

JM FINANCIAL

Expanding product offerings to drive growth outperformance

Ashish Shah
ashish.shah@jmfl.com | Tel: (91 22) 66303085
Gaurav Uttrani
gaurav.uttrani@jmfl.com | Tel: (91 22) 66303372
Vaibhav Shah
vaibhav.shah@jmfl.com | Tel: (91 22) 66303068

Tega Industries (Tega) is a leading player in the global Mill Liners industry with a market share of 5%. Mill Liners being consumables exhibit low demand cyclicality. These are highly engineered and customised products and though their contribution to the operating cost of mills is low any failure leads to high shutdown costs for the mills. This leads to customer stickiness with 75-80% of Tega's sales being from repeat orders. We expect Tega to materially outpace the expected global industry growth of 6% led by expansion in product portfolio leading to expansion in TAM and addition of new sites. Also, the recent acquisition of McNally Sayaji (MSEL) gives entry into the OEM business, gives access to new customers and materially expands the TAM. We forecast sales/EPS CAGR of 20%/14% over FY23-26E for Tega led by a 16% CAGR in the consumables business and incremental contribution from MSEL (acquired in Feb-23). Maintain BUY with revised TP of INR1130 (30x Sept'25E EPS).

- **Leading player in the Mill Liner industry:** The global Mill Liners industry is USD 1.7bn in size and is dominated by a few large players. Tega with a market share of 5% ranks 5th globally and is also the 2nd largest producer of polymer-based mill liners (FY23 exports at 86% of consolidated revenue). Demand cyclicality is low as Mill Liners are a consumable product and after-market spends over the lifecycle of a mill are typically 3x the upfront capex spends. The global mill liner industry is expected to grow at 6.3% CAGR till 2030 exceeding the growth in underlying commodities due to depleting ore grades.

- **High entry barriers drive strong margins:** Mill Liners and other mineral processing products are highly engineered products and are customised for each mill and each plant location. Each mining site is an individual customer based on the hardness of the ore. Mill Liners account for only about 3-15% of the mill's operating costs but the cost of mill stoppage in case of failure is very high. Due to this customers do not tend to easily switch to a substitute supplier and conversion cycles are long (12-18 months). This has led to 75-80% of Tega's sales from repeat orders and strong gross margins of 58-60% historically.

- **Growth outlook remains healthy:** Tega is likely to materially outpace the expected growth of 6% in the global mill liner market led by expansion in its product portfolio and addition of new sites. The launch of DynaPrime product range (composite of rubber and steel) in 2019 has unlocked an opportunity to disrupt the traditional Steel Liner market (USD 900mn; new market for Tega). This expands the TAM from USD 400mn (rubber linings) to USD 1.3bn for Tega. Management has guided for 15% volume CAGR for the consumables business (mill liners and other products) aided by 25% CAGR in DynaPrime.

- **Maintain BUY with TP of INR1130:** We forecast sales/EPS CAGR of 20%/14% over FY23-26E for Tega led by a 16% CAGR in the consumables business and incremental contribution from MSEL (acquired in Feb-23). EBITDA margins are likely to decline from FY23 levels due to addition of MSEL business. Return ratios after falling in FY24 are likely to inch up going forward. Maintain BUY with TP of INR1130, at 30x Sept'25E EPS. **Key risks:** Sharp decline in global mining output and surge in raw material and freight costs.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,130
Upside/(Downside)	20.3%
Previous Price Target	900
Change	25.6%

Key Data – TEGA IN	
Current Market Price	INR939
Market cap (bn)	INR62.4/US$0.7
Free Float	25%
Shares in issue (mn)	66.3
Diluted share (mn)	66.5
3-mon avg daily val (mn)	INR110.0/US$1.3
52-week range	1,110/512
Sensex/Nifty	65,945/19,665
INR/US$	83.2

Price Performance

%	1M	6M	12M
Absolute	4.3	37.6	73.0
Relative*	2.6	20.3	49.9

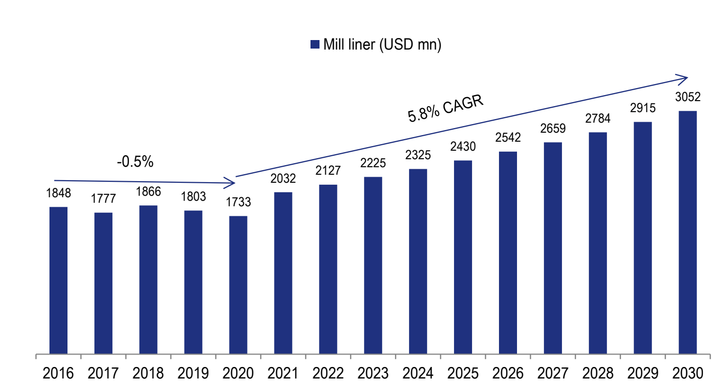
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	9,518	12,140	15,457	17,970	20,931
Sales Growth (%)	18.2	27.6	27.3	16.3	16.5
EBITDA	1,829	2,705	3,028	3,527	4,117
EBITDA Margin (%)	19.2	22.3	19.6	19.6	19.7
Adjusted Net Profit	1,168	1,841	1,907	2,271	2,736
Diluted EPS (INR)	17.6	27.7	28.7	34.2	41.2
Diluted EPS Growth (%)	-14.4	57.4	3.5	19.1	20.5
ROIC (%)	16.4	19.2	15.8	16.8	18.1
ROE (%)	17.3	20.6	16.8	17.1	17.6
P/E (x)	29.9	19.3	32.7	27.5	22.8
P/B (x)	4.7	3.4	5.1	4.4	3.7
EV/EBITDA (x)	20.1	14.1	21.2	18.0	15.1
Dividend Yield (%)	0.2	0.4	0.3	0.3	0.4

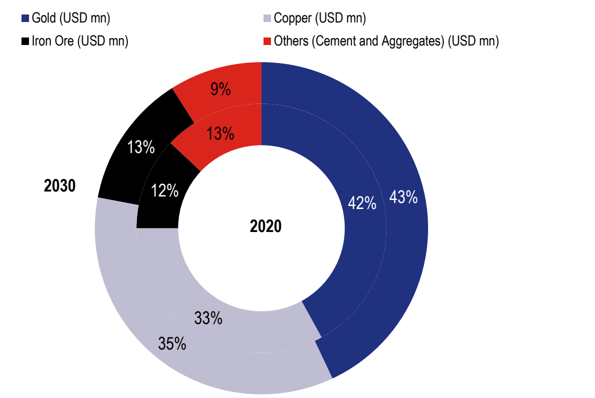
Source: Company data, JM Financial. Note: Valuations as of 26/Sep/2023

Exhibit 1. Positive industry outlook, presence in key markets, strong margins and healthy return ratios

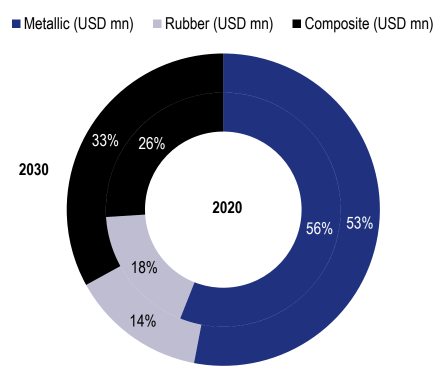
Mill liner industry outlook



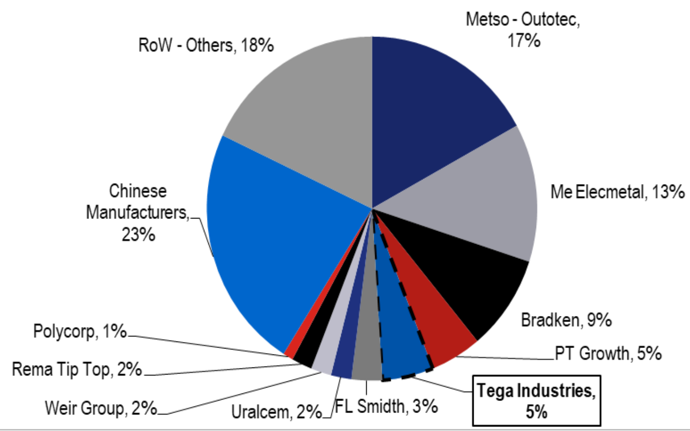
Current mill liner demand by ore type (%) – Gold and Copper account for 75%



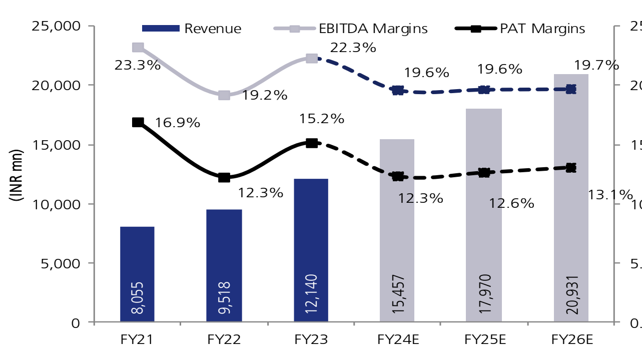
Current mill liner demand by type (%)



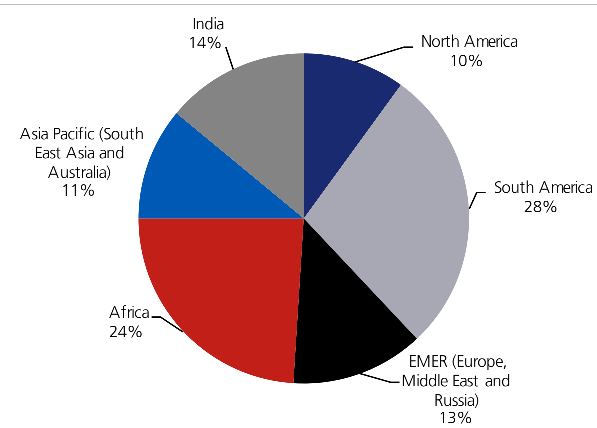
Tega commands c.5% share on the overall mill liner market



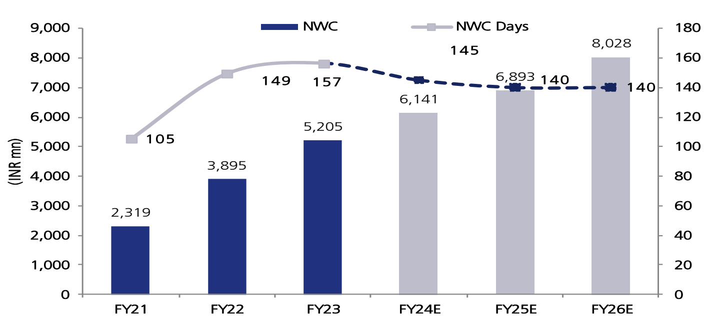
Expect 20%/14% Rev/EPS CAGR over FY23-26E



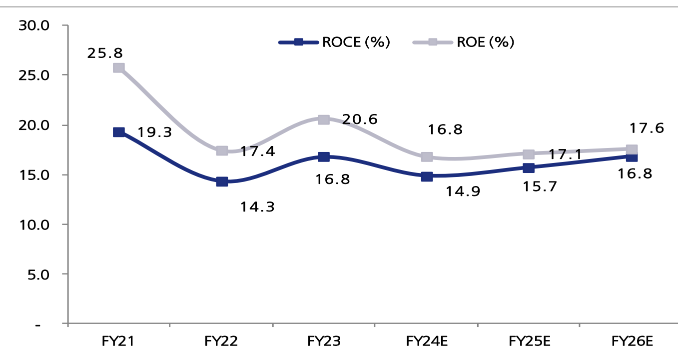
Geography wise revenue (FY23): South America and Africa are major markets



Net working capital trend



Return ratios to inch up after dipping in FY24E

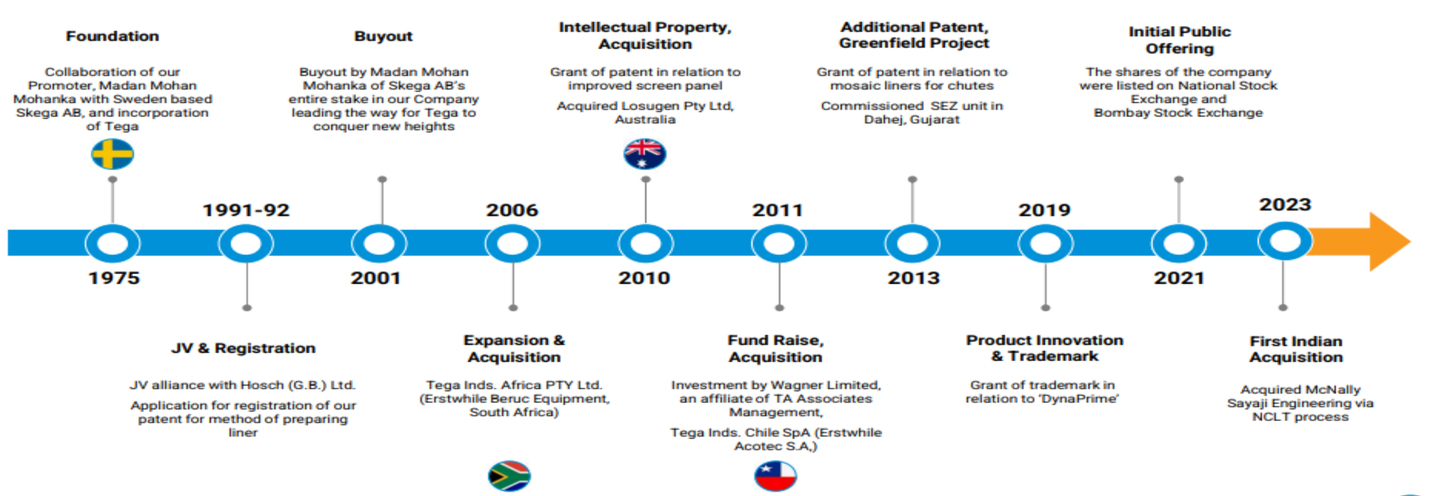


Source: Company, JM Financial

Leading global producer of Mill liners

- **Established global presence in the Mill Lining business:** Tega Industries (Tega), headquartered in Kolkata, India is a leading global producer of Mill liners and other products for screening and handling of ores catering to the mineral processing industry. Tega was founded by Mr. Madan Mohan Mohanka and commenced operations in 1978 in India in collaboration with Skega AB, Sweden. Mr. Mohanka acquired the entire equity stake of Skega AB in the company in 2001. Between 2006 and 2011 Tega acquired meaningful global presence through acquisition of companies offering similar line of products in South Africa (2006), Australia (2010) and Chile (2011). Tega's core products essentially fall in the consumables category of the mill processing industry due to which bulk of the demand is for replacement rather than for capital equipment. In Feb-23, Tega acquired MSEL which added capabilities in OEM products like crushers, impactors and mills, among others to Tega's product portfolio. Tega registered consolidated revenue of INR 12.1bn with PAT of INR 1.8bn in FY23. Tega completed its IPO in 2021.

Exhibit 2. Long and established track record



Source: Company, JM Financial

Exhibit 3. Geographical presence of the company

Source: Company, JM Financial

Exhibit 4. Revenue distribution geography wise

In INR mn	FY23	% share	FY22	% share
North America	1,192	10%	1,259	14%
South America	3,372	28%	2,542	27%
EMER (Europe, Middle East and Russia)	1,566	13%	1,196	13%
Africa	2,809	24%	2,388	26%
Asia Pacific (South East Asia and Australia)	1,281	11%	981	11%
India	1,723	14%	958	10%
Total revenue	11,943	100%	9,325	100%
In INR mn	FY23	% share	FY22	% share
India	1,907	16%	1,138	12%
Outside India	10,233	84%	8,379	88%
of which Chile	2,932	24%	1,748	18%
Total consolidated revenue	12,140	100%	9,518	100%

Source: Company, JM Financial

Exhibit 5. Details of the IPO (Dec-21)

Size of proceed	Amount (INR mn)	Exiting shareholders	Amount (INR mn)
Total size of OFS	6,190	Madan Mohanka	1,500
Fresh	-	Manish Mohanka	300
-	-	Wagner group	4,390
Total	**6,190**		**6,190**

Source: Company, JM Financial

- **Market positioning: Among the top 5 players in Mill Liners; 2nd in polymer-based liners:** According to Frost and Sullivam report (source: IPO Prospectus) the total size of Mill Liners market was USD 1.7bn in 2020 (2022E: USD 2.1bn). Mill Liners is an oligopolistic market with the top 5 players accounting for 50% of the market. Tega ranked 5th with a market share of 5%. China accounted for USD 400m of this market size and ex-China basis (since Tega does not operate in China) Tega's market share was marginally higher at 6%. Within the Mill Lining market, Metallic (steel) Linings is the largest category (56% share) and rubber (18%) and composites (26%) account for the balance. Tega is the world's second largest producer of polymer-based mill liners in terms of revenue.

- **Manufacturing facilities spread in India and in major target markets:** Tega has a total of six manufacturing facilities for its consumables business (mill liners and other products) of which 3 are in India and 3 are overseas. The manufacturing plant at Kalyani (West Bengal) is the flagship plant of the company and the plants at Samali (West Bengal) and Dahej (Gujarat) were added subsequently. The overseas plants in Chile, South Africa and Australia are the result of the respective acquisitions by the company during 2006 to 2011. Mill Liners being highly value added and engineered products the company does not specify the capacity in terms of MT but in terms of revenue potential the aggregate capacity utilisation currently stands at c60%. The acquisition of MSEL has added four more plants to the Tega fold which are located in Gujarat, Karnataka, West Bengal and Jharkhand.

Exhibit 6. Manufacturing facilities

Sr. No	Facility location	Capabilities/products manufactured	Leased/owned	COD/Acquisition
Domestic				
1	Dahej, Gujarat	Mill Liners, Wear products, Screens and Trommels	Leased	2013
2	Samali, West Bengal	Mill Liners, Wear products, Hydrocyclones, Screens, Trommels and Conveyor products	Owned	1985
3	Kalyani, West Bengal	Mill liners (except Dynaprime), Conveyor products, Chute liners and Pump liners, Hydrocyclones	Leased	1978
McNally Sayaji (Equipment)				
4	Baroda, Gujarat	Crushers, vibrating screens, feeders and other material handling equipment	Owned	2023
5	Bangalore, Karnataka	Thickener, pumps, filter press, floatation cells, sand washing plant	Owned	2023
6	Asansol, West Bengal	Vibrating screens, feeders, ball mills, crushers and job shops	Owned	2023
7	Kumardubi, Jharkhand	Mills, crushers, screen, feeders and job shops	Owned	2023
Overseas				
8	Chile	Mill liners, Trommels, Chute liners, Screens, Pipe and pipe repair and spools	Leased	2011
9	South Africa	Mill liners (except Dynaprime), Spillex, Screen panels and Chute liners	Owned	2006
10	Australia	Chute liners and Trommel	Leased	2010

Source: Company

Strong track record of acquisitions and partnerships

- In FY07, Tega acquired Tega Industries Africa (Pty) Ltd. (formerly, Beruc Equipment (Proprietary) Limited) ("Tega Africa") a South Africa-based manufacturer and distributor of grinding mill liners and screen media, et al. The acquisition provided access to manufacturing capabilities and customers in Africa's mining and industrial markets including member countries of the Southern African Development Community (SADC).
- In FY11, Tega acquired Perth-based Losugen Pty. Ltd. ("Losugen"), which specialises in the design, distribution, installation, wear monitoring of wear liners, rubber lining, and screens for mining handling industries.
- In FY11, Tega acquired Chile-based Tega Industries Chile SpA (formerly Acotec SA) ("Tega Chile") which manufactures pumps, screen media, and wear products. The facilities in Chile gave it access to the South American markets including Chile, Peru, and Bolivia (Latin American markets contribute 40% of global copper production and 8% of global gold production).

Exhibit 7. Key financial metric of subsidiaries

INR mn	FY18	FY19	FY20	FY21	FY22	FY23
Australia						
Revenue	421	466	337	280	429	677
PAT	63	63	22	12	-5	47
South Africa						
Revenue	805	780	724	1,012	1,502	1,679
PAT	61	- 3	7	125	149	207
Chile						
Revenue	669	1,018	1,400	1,828	2,231	2,937
PAT	9	-310	149	227	156	287

Source: Company, JM Financial

- **Hosch Equipment (India) Ltd:** Tega has a 50:50 JV with Hosch (GB) Ltd., UK, called Hosch Equipment (India) Ltd. The JV was originally formed between Mr. Madan Mohanka and Hosch (UK) and incorporated on July 10, 1991 as a private limited company. Subsequently, Mr. Mohanka transferred his 50% stake in the JV to Tega for a consideration of INR 150mn. Hosch Equipment (India) Ltd is engaged in the manufacture of conveyor components like belt scrappers and accessories. As per the agreement the JV supplies products only within the Indian jurisdiction. Hosch (GB), UK is the provider of technology, R&D, raw material procurement among others.

Exhibit 8. Key financial metric of Hosch Equipment (India) JV (50%)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	157	170	164	203	211	283
PAT	29	36	36	54	56	86

Source: Company, JM Financial

- In FY23, Tega Industries acquired McNally Sayaji Engineering Ltd (MSEL) through CIRP process. This was Tega's first acquisition in India and fourth worldwide. McNally Sayaji Engineering offers solutions in the field of manufacturing and marketing of crushing, screening, grinding, material handling, and mineral processing equipment coupled with integrated customer support and aftersales service. It would aid Tega's product portfolio as global competitors like Metso are extending O&M contracts to customers which includes replacement of spare parts as well, thus restricting pure consumable companies like Tega Industries. Thus, it becomes vital for Tega to extend their product offering to counter these disruptive trends. The acquisition value is pegged at INR1.65bn (0.9x FY23 Revenue), can be scaled up to INR2.5bn (15-20% CAGR) in near term and INR4-5bn in 5 years.

Exhibit 9. Financials of McNally Sayaji Engineering

Profit and Loss	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	**3,119**	**2,546**	**2,432**	**1,752**	**1,777**	**1,722**	**1,887**
COGS	1,471	1,278	1,378	886	920	927	1,123
Gross Profit	**1,648**	**1,268**	**1,054**	**866**	**857**	**795**	**764**
Gross Margin (%)	**52.8%**	**49.8%**	**43.3%**	**49.4%**	**48.2%**	**46.2%**	**40.5%**
Employee Expenses	384	365	348	321	300	278	276
Other Expenses	1,109	930	605	569	407	626	476
EBITDA	**155**	**-27**	**101**	**-25**	**150**	**-109**	**12**
EBITDA Margin (%)	**5.0%**	**-1.1%**	**4.1%**	**-1.4%**	**8.4%**	**-6.3%**	**0.7%**
Other Income	183	68	168	115	50	90	163
Depreciation	163	164	126	81	95	66	74
Finance Expenses	412	364	371	77	39	43	34
PBT before exceptional	-237	-487	-229	-68	66	-129	67
Exceptional item	-	-	-259	-	-	-308	825
PBT	-237	-487	-488	-68	66	-436	892
Tax	-303	-125	-110	-3	0	-2	430
PAT	**65**	**-362**	**-378**	**-65**	**66**	**-434**	**462**
Balance Sheet							
Equity	1,401	1,044	657	587	654	227	1,981
Debt	1,750	1,977	2,142	1,983	1,916	1,900	1,000
Capital Employed	**3,150**	**3,021**	**2,799**	**2,569**	**2,570**	**2,127**	**2,981**
Gross Fixed Assets							
Net Fixed Assets	1,645	1,488	1,367	1,317	1,228	1,167	1,776
Investment	38	38	36	36	36	36	
Other Non-Current assets	630	710	1,287	656	673	741	19
Cash	113	56	83	71	215	209	197
NWC	724	729	25	489	417	- 27	989
Total Funds Applied	**3,150**	**3,021**	**2,799**	**2,569**	**2,570**	**2,126**	**2,981**

Source: Company, JM Financial

Exhibit 10. McNally Sayaji's returns to start catching up with cost of capital by FY26E

INR mn	FY23	FY24E	FY25E	FY26E
Revenue	1,887	1,981	2,239	2,530
EBITDA	12	198	224	253
EBITDA margin	1%	10%	10%	10%
Depreciation	74	76	77	79
EBIT	-62	122	147	174
ROCE (pre-tax) – on acquisition cost		7.4%	8.9%	10.6%
ROIC (pre-tax) - on net acquisition cost		8.7%	10.5%	12.4%

Source: Company, JM Financial

Exhibit 11. Key commentaries from the AR-FY23

Key Parameters	Management commentaries
Growth strategy	Increase market share and increase customer wallet share
DynaPrime Mill Liners	Sustain DynaPrime offtake at 25% CAGR over 5 years
McNally Sayaji	Envisages a CAGR of 15% for the next 3-4 years
Services business	Extend into life cycle equipment management, generating annuity revenues
Acquisitions	Acquire companies with complementary capabilities
Balance sheet	Intends to build a strong networth with no long term debt. All incremental spending to be sustained through accruals
Research spending	Increase research spending from 1% to 3% of revenues

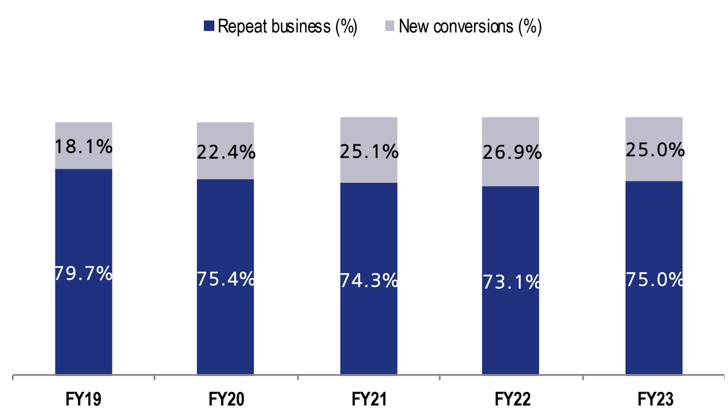
Source: Company, JM Financial

Mill Liners business has inherent strengths

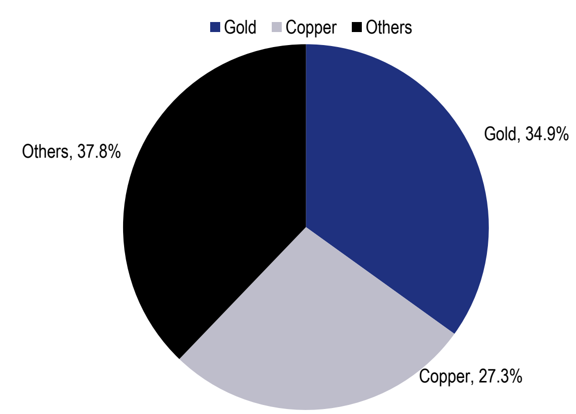
- Highly engineered and customised products: Mill Liners and other products are highly engineered products and need to be customised for each mill and each plant location. For the manufacturers of such products each mining site is an individual customer since the ore for the same commodity can vary significantly based on the location. The product development process uses a combination of mineral processing engineering, mechanical engineering and material sciences.
- Sticky customer base: Mineral processing sites do not tend to easily switch to a substitute supplier due to the high cost of initial planning involved, the lead time required for approval, degree of certainty of the products of an established supplier, the high cost of downtime or shutdown of a site, and relatively lower percentage cost of components in the total operating costs of a mineral processing site. It takes nine to fifteen months to become an approved supplier once approved by a customer and these approvals do not have an expiry period.
- Entry barriers caused by high failure costs: Mill Liners account for only about 3-15% of the mill's operating costs but the cost of stoppage in case of failure is very high. In one particular case study of gold ore processing the downtime cost per hour was assessed at US$ 174,042 (source: IPO prospectus). Entry into the industry requires customer validation and approvals, expectation from customers for product innovation, high quality standards and stringent specifications. Given these are 'critical-to-operate' products, stringent checks are in place to ensure timely supply and adequate stocking of replacement parts to avoid unplanned shutdown and reduce downtime.
- Insulated from mining capex cycles: Manufacturers of Mill Liners and other consumables primarily cater to the after-market spends of a mineral processing unit. The life of a mill liner typically varies from 6 months and up to 2 years based on the hardness of the ore to be refined. After-market spend is typically three times the upfront capex spend over the lifecycle of a mill, and is a recurring cost for miners. Repeat orders formed 75-80% of Tega's consolidated revenue over FY19-23.

Exhibit 12. Tega: High share of repeat customers; higher proportion of sales towards gold & copper mining

Higher proportion of repeat business



Gold & copper form majority of revenue proportion*

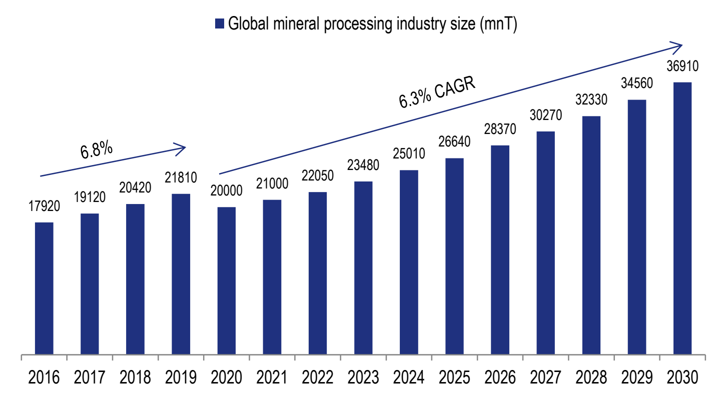


Source: Company, JM Financial*revenue contribution from key minerals as of FY22

Global Mill Liners industry likely to maintain healthy growth rate

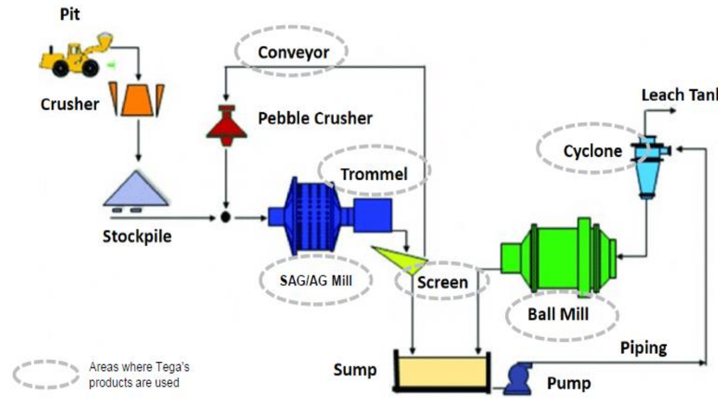
- The global mineral processing equipment market was an estimated USD 20bn in CY20. The market reported a growth of 7% CAGR until CY19. The industry is likely to recover in CY22 and is estimated to grow to USD36.9 bn by CY30, at a CAGR of 6.3%.

Exhibit 13. Mineral processing industry outlook



Source: Company, JM Financial

Exhibit 14. Milling process: Tega has a sizeable presence



Source: Company, JM Financial

Mill liners are an intrinsic part of the Mineral Processing industry

Overview

- A mill is a machine that grinds, cuts, and crushes solid materials into useable sizes for further processing. **Mill liners fundamentally protect mills** from the wear that comes with grinding harsh raw materials.
- **Mill liners 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 classified as metallic, rubber or composite materials based on the type of material used.
- **Copper and gold mine processing sites are key consumers of mill liners**, as the mined material is significantly abrasive; also, the yield per tonne of ore mined in these two segments is declining due to ore degradation and excess mining in the past. Mill liners primarily a life of 6 months to 2 years, based on the hardness of the ore to be refined.
- The **global mill liner market was estimated at USD1.73bn in CY20** and was largely driven by ore beneficiation in gold and copper worldwide and iron ore in Brazil and China. The market was oligopolistic in nature with the top 5 producers, namely Metso- Outotec, Me Elecmetal, Bradken, PT Growth and Tega Industries, accounting for c.50% market share.
- **Demand is primarily driven by LATAM countries**, which account for 40% of global copper production and 8% of global gold production, largely due to the presence of large copper and iron ore mines in the region. China accounts for 10%. Demand of mill liners is higher in replacement against newly installed grinding machine with mill liner in a year. The ratio is expected to be about 70% to 80% from replacement and 20% - 30% from new installed machines.

Exhibit 15. Global mill liner industry: Top 5 players account for 50% of the market

Global competition	Countries	Market Share*
Metso - Outotec	Finland, India, Argentina, Australia, US, Peru, Brazil, Chile, Estonia, Belarus, Indonesia, Kazakhstan, Paraguay, Norway, Russia, South Africa, Sweden, UK and Uzbekistan	17%
Me Elecmetal	Chile, US, China and Zambia	13%
Bradken	Australia, China, Canada and Malaysia	9%
PT Growth	Indonesia, China, Australia, Ghana, South Africa, Chile, Peru and Mexico	5%
Tega Industries	India, Chile, South Africa and Australia	5%
FL Smidth	China, India and Poland	3%
Uralcem	Russia	2%
Weir Group	Poland, US, Mexico, Colombia, India, China, South Africa, Brazil, Peru, Chile	2%
Rema Tip Top	Germany & China	2%
Polycorp	Mali, Mongolia & Russia	1%
Chinese Manufacturers	China	23%
RoE - Others	RoW: Chile, Peru, USA, and South Africa	18%
Total		100%

Source: Company * Market share as of CY20

Description of important types of Mill Liners

- Metallic mill liner: The demand for metallic mill liners is highest given ease in availability. Steel mill liners are of better quality and available worldwide; this reduces lead time and cost. **Steel mill liners are preferred in large grinding mills**, unlike rubber mill liners which are best suited to small and medium-sized mills with diameter up to 6.5-meters.
- Rubber mill liner: Rubber abrasion mill liners are solely manufactured by rubber, its light in weight and offers quick installation. These are available in ball mills less than 3.8 meters in diameter, are most usually employed in smaller operations. These **rubber liners are usually used in all secondary and tertiary applications in which the load in the mill is not too high**. Due to its lesser weight it is more energy efficient and offers less downtime over conventional metallic mill liner.
- Composite mill liner: Composite mill liners are **made with a combination of the various steel alloys and rubber compounds**. It is understood that steel mill liners are around 40% more heavy than these liners. **Composite mill liners have large demand from primary ball and SAG mill.** Over the past few years mining companies have been more attracted towards composite over conventional metallic and rubber mills. The presence of the rubber contributes to load damping. The profile maintains for a longer period of time and increases grinding efficacy, which is a key demand of the industry, because of its increased wear resistance properties.
- Hybrid mill liner: These are **made from a combination of the various steel alloys and the rubber compounds.** The hybrid liner integrates the multiple lifter and platform components into one single unit reducing the total number of components within the mill. **Hybrid liner has a special attachment system which does not require the crew to be present in the grinding mill**. This makes the crew securely install the liner and the installation is faster than conventional metallic liner.

Exhibit 16. Mill Liner usage by type/size of mill

Mill Size (Diameter in mtrs)	SAG Mill				Ball Mill			
	Rubber	Composite	Hybrid	Metallic	Rubber	Composite	Hybrid	Metallic
<=2.4					Tega, Metso, Weir, Polycorp, Multotec, PT Growth, Regional players			Less presence
>2.4; <=3.8								
>3.8; <=4.6		Tega, Metso, Multotec, Weir		Less presence		Tega, Metso, Weir, Polycorp, Multotec, PT Growth, Regional players		
>4.6; <=5.5		Tega, Metso, Weir, Polycorp, Multotec		Medium presence				Medium presence
>5.5; <=8.5		Tega, Metso, Weir, Polycorp, Multotec					Tega Metso, Siom	High presence
>8.5; <=9.5		Tega, Metso, Siom		High presence				
>9.5;<=12.5			Tega					

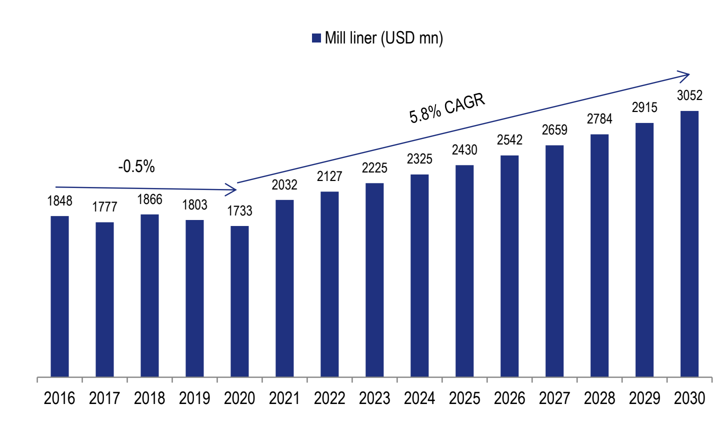
Source: Company, JM Financial

Mill liner industry is expected to grow at c.6% CAGR over FY20-30E driven by –

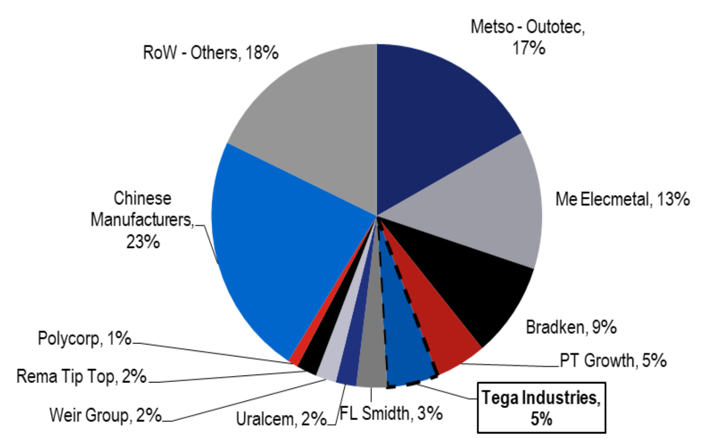
- **Declining ore grades -** Ore grades have declined over the last few years in copper and gold mines, which has led to disproportionate industry growth of around 5-7% for mining and mineral processing equipment.
- **Strong demand for copper/gold –** Demand for copper and gold is expected to be driven by higher EV production/industry automation and use in jewellery/electronics industry respectively. These metals are expected to grow at 6.4%/5.3% CAGR over FY22-27E respectively, but reducing ore grades will result in 1.5-2% higher growth in ore mining.
- **Increasing mill sizes –** Increased usage of SAG mills and quest to improve throughput per mine has led to an increase in average mill sizes over the past few years. With increasing mill sizes, demand for lighter lining material is increasing as it helps improve overall energy consumption and reduces wear rates.

Exhibit 17. Breakdown of mill-liner market (expected to grow at c.6% CAGR over CY20-30)

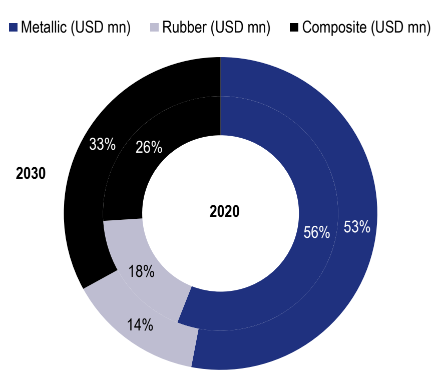
Mill liner expected to grow at 5.8% CAGR



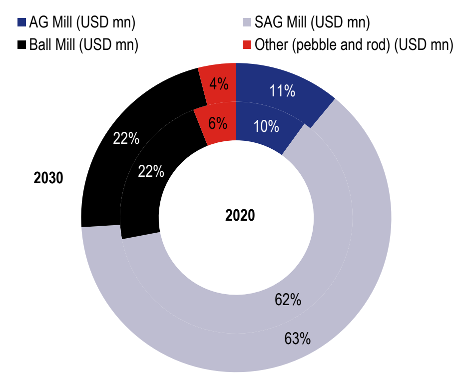
Tega commands 5% share in the overall mill liner market



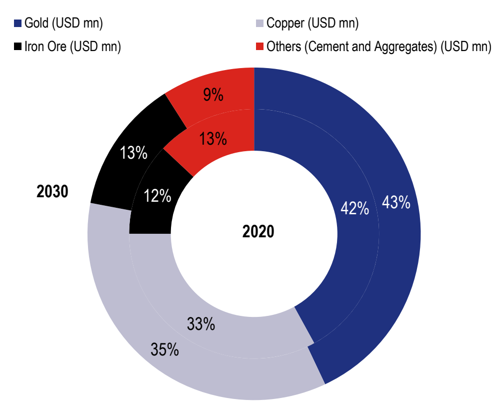
Current mill liner demand by type (%)



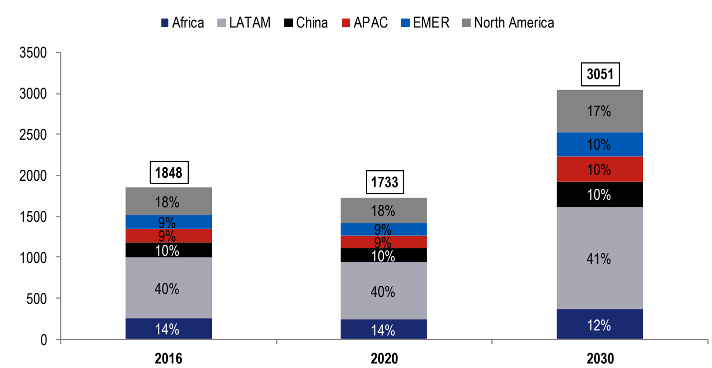
Current mill liner demand by end usage (%)



Current mill liner demand by ore type (%)



Geography-wise mill liner demand (US$ mn)



Source: Company, JM Financial

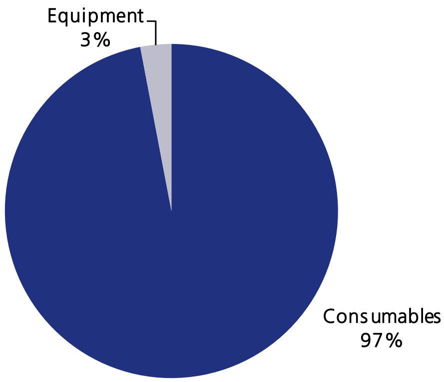
Overview of Metso Outotec: Global market leader in Mill Linings and related products

- Company overview: Metso Outotec was formed by combining the minerals business of Metso and the Minerals Processing business and Metals Refining business of Outotec. Metso Outotec provides end-to-end solutions and services for the aggregates, minerals processing and metals refining industries globally. The Minerals business supplies a wide portfolio of process solutions, equipment, and aftermarket services for mining operations (this is segment where the mill linings, mill trommels, trunnion, grinding media and other mineral processing products are housed). The company registered revenue of EUR 5.3bn in 2022 of which the Minerals segment accounted for revenue of EUR 3.4bn.
- Market positioning: i) More than 50 years of mill lining experience ii) first company in the world to develop and manufacture rubber mill linings (in 1959 through Skega) iii) pioneered the use of rubber, Poly-Met, Megaliner and Orebed linings and has produced Metallic linings for over 30 years iv) Linings installed in more than 4000 mills worldwide. Geographical footprint: i) Mill lining manufacturing in 14 factories globally ii) Local sales and service offices in more than 50 countries.
- Product offerings related to Tega: Mill linings, mill trommels, trunnions, slurry pump parts, wear lining, screening media, and conveyor parts, among others.
- Mill lining products: Key attributes
  - Rubber mill linings: Wear resistant, light weight components, reduced noise and vibrations, easy installation and replacement.
  - Wide application areas: Poly-Met mill linings patented in 1987 that combines the most desirable properties of rubber and steel which is designed to be installed using modern liner handlers.
  - Metallic mill linings: Metallic linings produced at company's foundries, experience and know-how of more than 30 years.
  - Ore-bed mill linings: Developed and patented in the 1970s and consists of a series of powerful permanent magnets embedded within a matrix of highly abrasion-resistant rubber, this leads to lowers the wear rates of the lining.
  - Megaliner™: Introduced in 2012 and it is larger up to 5 sq mtr for each liner which is lighter than conventional metallic liners. This is aimed to reduce downtime for larger grinding mills and installation is faster and safer as liner bolts are inserted and removed from the outside of the mill.
- Outlook for Minerals segment (as of Aug-23): Strong and healthy activity levels from a long term perspective. However there is a slowdown in large-ticket order wins largely led by uncertainties on interest rates rather than any other macro factor. The business is also coming from a high base of strong order wins during the post pandemic period. The current investment cycle has been more brownfield focused for a while as miners focus on increased asset sweating.

Tega expanding product portfolio to increase TAM

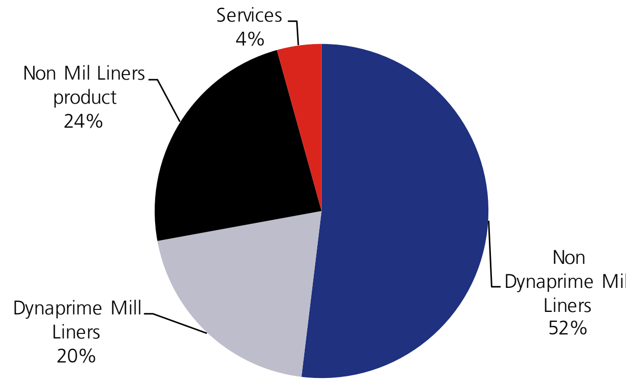
Company's product portfolio includes consumables required in the mines and mineral processing industry. In the sequence of their usage in the mineral processing mines, after blasting to floatation, products include chutes and its liners, grinding mill liners, trommels and screens, hydrocyclones, pumps and flotation parts and conveyor products.

Exhibit 18. Revenue distribution in FY23 (INR12.1bn)



Source: Company, JM Financial

Exhibit 19. Revenue contribution in 9MFY23



Source: Company, JM Financial

Mill liners

Mill liners offered by Tega include DynaPrime, DynaSteel, DynaPulp and DynaWear, all of which are the flagship products.

Dynaprime – the disruptive product

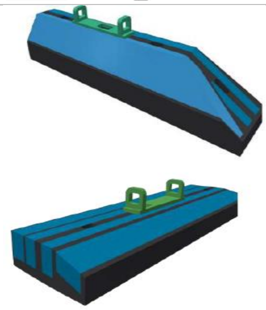
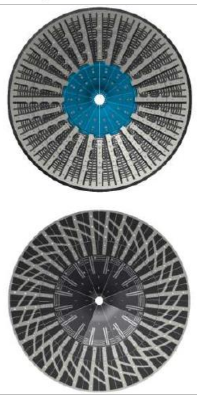
Installation downtime was higher in large mills using traditional metallic liners due to lower liner life. Further, constant replacement of metallic liners also raised concerns over installation safety. To mitigate this problem, Tega introduced DynaPrime to extend offerings in this market with improved product profile and material composition. DynaPrime requires lesser number of pieces and fixing points, which ensures faster installation. The product also led to increased life and reduction in weight, energy consumption, and personnel requirement.

- The product has unlocked a new opportunity of converting the existing metallic liner market to Dynaprime – Total addressable market of US$ 900mn. This is a new market for Tega in addition to the existing US$ 400mn rubber and PM liner market.

Foray into equipment through MSEL acquisition to expand addressable market

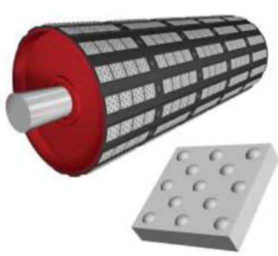
- USD20bn global market opportunity exists: Global market size of mineral processing equipment stands at USD20bn, while the domestic market stands at INR30-35bn. The company's addressable market increased substantially as McNally Sayaji sells OEM mineral processing equipment, which will aid Tega's product portfolio as global competitors like Metso are extending O&M contracts to customers which includes replacement of spare parts as well, thus restricting pure consumable companies like Tega Industries.
- Advantages of the acquisition are:
  - a) MSEL has strong brand recall among domestic mining companies like JSW Steel, Tata Steel, HZL,
  - b) distributed manufacturing across 4 locations (Kumardhubi, Vadodara, Bengaluru, Asansol) with more than 100 acres of land to enable quick scale up and market share gains,
  - c) improving sector dynamics due to consolidation and
  - d) product portfolio extension via coal/ash handling products.

Exhibit 20. Product portfolio

Picture	Product	Remarks
Mill Liners		
	Dynaprime	The DynaPrime range has been designed specifically for the bigger size of the mills where modern liner handlers are available. DynaPrime has been engineered to reduce the number of pieces being installed inside the mill, substantially reducing the installation downtime for maximum mill operation up-time.
	DynaSteel	DynaSteel range constitutes of a combination of different alloys and rubber to engineer a perfect blend for grinding application. DynaSteel ensures a complete protection from excessive wear on the mill lining and deliver maximum grinding efficiency to the mill. DynaSteel has proven to be successful in demanding applications, especially in primary grinding mills and the challenges faced by the conventional liners, such as cracking of liners is eliminated by the judicious use of the right material of construction in DynaSteel.
	DynaPulp	DynaPulp, along with designed grate seeks to achieve a maximum capacity out of the mill. The company uses advanced computational softwares to simulate the slurry charge using specialized tools, to ensure an efficient discharge system. DynaPulp range has been proven to achieve a lower specific power consumption to save more energy. DynaPulp offers curved and radial discharger system, DynaPulp radial discharger system is designed with hardened steel at right positions to arrest excessive differential wear rate and thus maximizing the life of the discharger.
	DynaWear	DynaWear mill linings provide optimal grinding solutions in major mineral processing plants all over the world. DynaWear range consists of products completely manufactured using specialized rubber to deliver optimized life and capacity to maximize the cost benefit for a plant. Rubber lining system is the preferred lining system for secondary ball mills; regrind mills, rod mills and scrubbers. DynaWear has been successfully used in a wide range and installed in primary, secondary and tertiary grinding mills, batch mills and scrubbers.
Trommels and Screens		
	Rapido	Rapido is the patented product which addresses certain major issues of the mining industry relating to clogging and blinding of the apertures during operation with existing screen panels, resulting in downtime of the equipment and lower efficiencies. With its dual system of top and bottom part, it reduces the replacement time of panels by up to 70% and due to the unique patented top part, induces secondary vibration in the panel which results in the elimination of blinding and clogging. It therefore increases the efficiency of the panels, resulting in significant benefits to the customer.
	Screening Solutions	Tega provides screen applications in mining, mineral processing, steel plants, cement plants and aggregate industries. The screening solutions deliver unique, highly efficient wear resistant screen decks which increases screening efficiency, reduces down-time and cost per tonne of material handling. Some of the popular screening decks include, bolt down panels, cross tension panel, flip flo panel, panel cord, dewatering panel, polysnap panel, anti-clogging panel and button type panel.

Source: Company

Exhibit 21. Product portfolio (Contd.)

Picture	Product	Remarks
	Trommels	Trommels are becoming an integral part of large SAG mills and Ball mills application. The high tonnage mineral processing plants have replaced screens with high capacity trommels to handle high tonnage of ore processed and to efficiently separate the oversized particles. With engineering expertise in designing and installing consumables for large sized mineral processing plants, the company offers a wide range of trommels for heavy duty, medium duty and light duty applications along with structure, rubber or polyurethane screen panels, spirals, connecting pieces and end flanges. All trommels are custom designed, optimizing the sizes, capacity and wear life. The structural parts, type of panels, fixing type and reinforcement are designed and manufactured on the basis of application. The structural design is cross checked and optimized with specialized analysis.
Hydrocyclones		
 	Tega Cyclone (PExEL)	Range of cyclones are made entirely from highly wear resistant rubber/ Cryston and are housed in mild steel casing. These are available with multiple cone angles to suit Customer requirement. Tega cyclones work in almost every mineral industry such as iron, coal, alumina, clay and many others and are used extensively for mineral classification and beneficiation of ore minerals. Tega market Tega Cyclones on the basis of their high capacity per unit area, and flexibility.
Conveyor Products		
	Spill-ex skirt sealing system	Spill-ex skirt sealing system is simple, yet effective in making conveyor loading stations spillage free. Skirt sealing is generally provided on both sides of the skirt board, however, for conveyors that are inclined upwards or for those handling fines, sealing of the rear of the belt is necessary. Spill-ex skirt sealing system is used in the loading zones of belt conveyors. Rear skirt sealing is provided with a fixed length backing skirt plate that is based on belt width.
	Centrax	Centrax is used to guide the conveyor belt system, when the conveyor belt starts to mistrack and the speed of the two tapered rollers changes. When there is a difference in speed, Centrax belt trackers immediately engage and guide the conveyor belt back to its correct position. The combination of tracker rollers with strong grip and a smooth-running swivel bearing gives Centrax its precision tracking characteristics.
	Ceramic Pulley Lagging	Lagging of the conveyor pulley is essential to improve conveyor belt performance. The use of lagging reduces belt slippage, improves tracking and extends life of belt, bearing & other components. ceramic pulley lagging is especially suited for pulleys with slippage and excessive wear and tear problems which make normal rubber lagging ineffective. Ceramic pulley lagging is widely used on the drive pulleys and can also be used on snub, bend and tail pulleys. This product incorporates square ceramic tiles with unique circular nubs which help in proper grip of the belt under wet muddy or any such arduous conditions

Source: Company

Exhibit 22. Product portfolio of McNally Sayaji Engineering

Crushing Equipment

Screening Equipment

Grinding Equipment

Feeding Equipment

Material handling equipment

Process plant equipment

Skid mounted crushing plant

Heat Exchanger

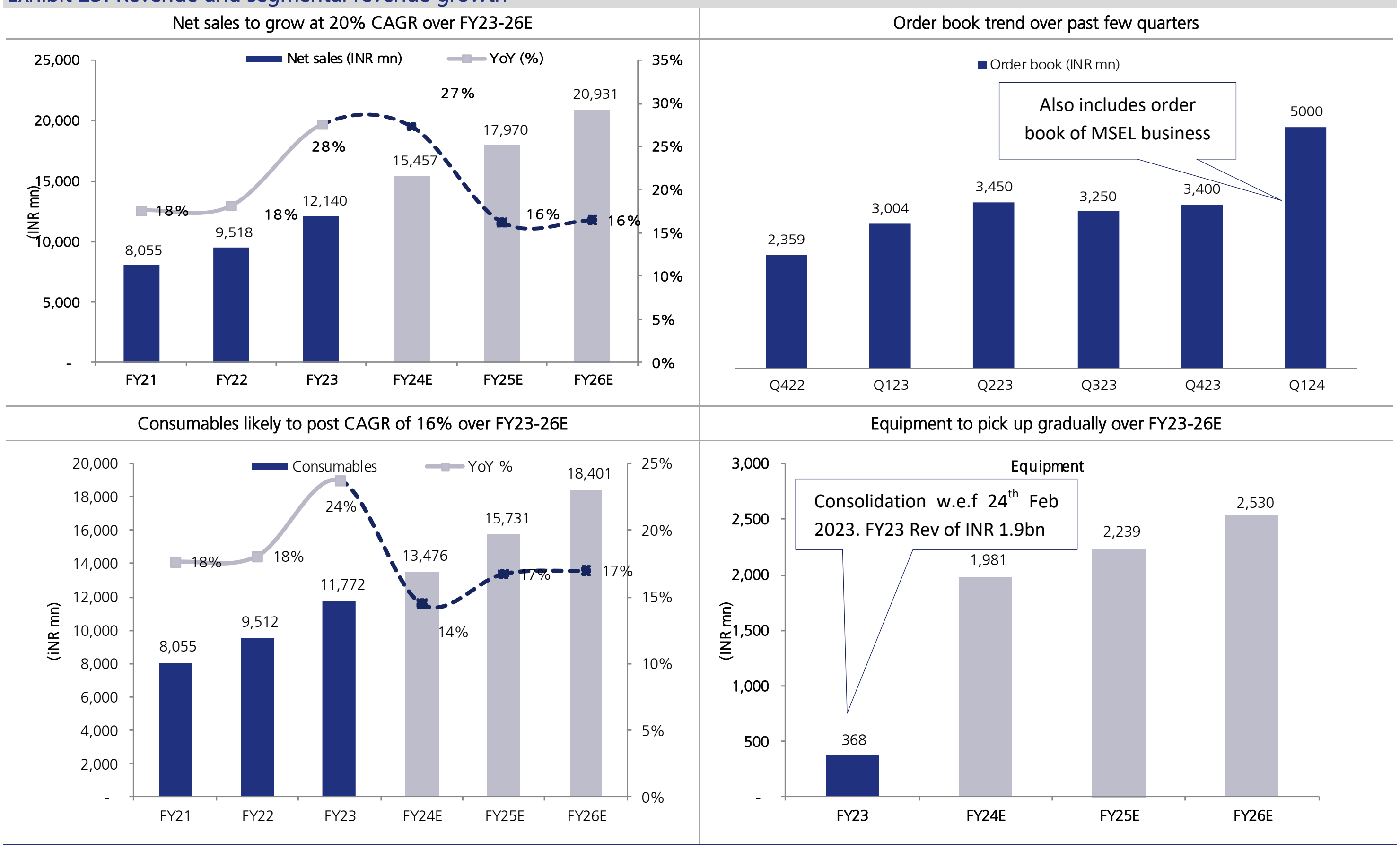
Source: Company, JM Financial

Revenue and earnings growth to remain strong over FY23-26E

- **Sales to clock CAGR of 20% over FY23-26E:** Over FY23-26E, we expect Tega to post revenue CAGR of 20% with the consumables business growing at 16% CAGR and the Equipment business ramping up to INR 2.5bn in FY26E from INR 368mn revenue consolidated in FY23 (consolidation wef 24 Feb 2023; FY23 Revenue of INR 1.9bn; implied CAGR of 10% over FY23-26E). The growth in the consumables business is likely to be led by an expected 25% CAGR in the DynaPrime product line. Tega has guided for a volume CAGR of 15% for the consumables business as a whole and revenue CAGR of 15% for the Equipment business as well.

- **Recent multi-year O&M agreement worth INR 6.9bn adds to revenue visibility:** Tega though its foreign subsidiary entered into an agreement with the largest copper mine in Europe, to supply, install and manage the Company's Mill and Non-Mill products. The agreement covers supply, maintenance, and other services for a period of 5+1 years, w.e.f. January 1, 2024. This agreement is linked to production and the minimum amount the customer is expected to spend during the 6 year term of the agreement is estimated to be c.INR 6.9bn. We anticipate revenue booking to the extent of INR1.2bn in FY25.

Exhibit 23. Revenue and segmental revenue growth



Source: Company, JM Financial

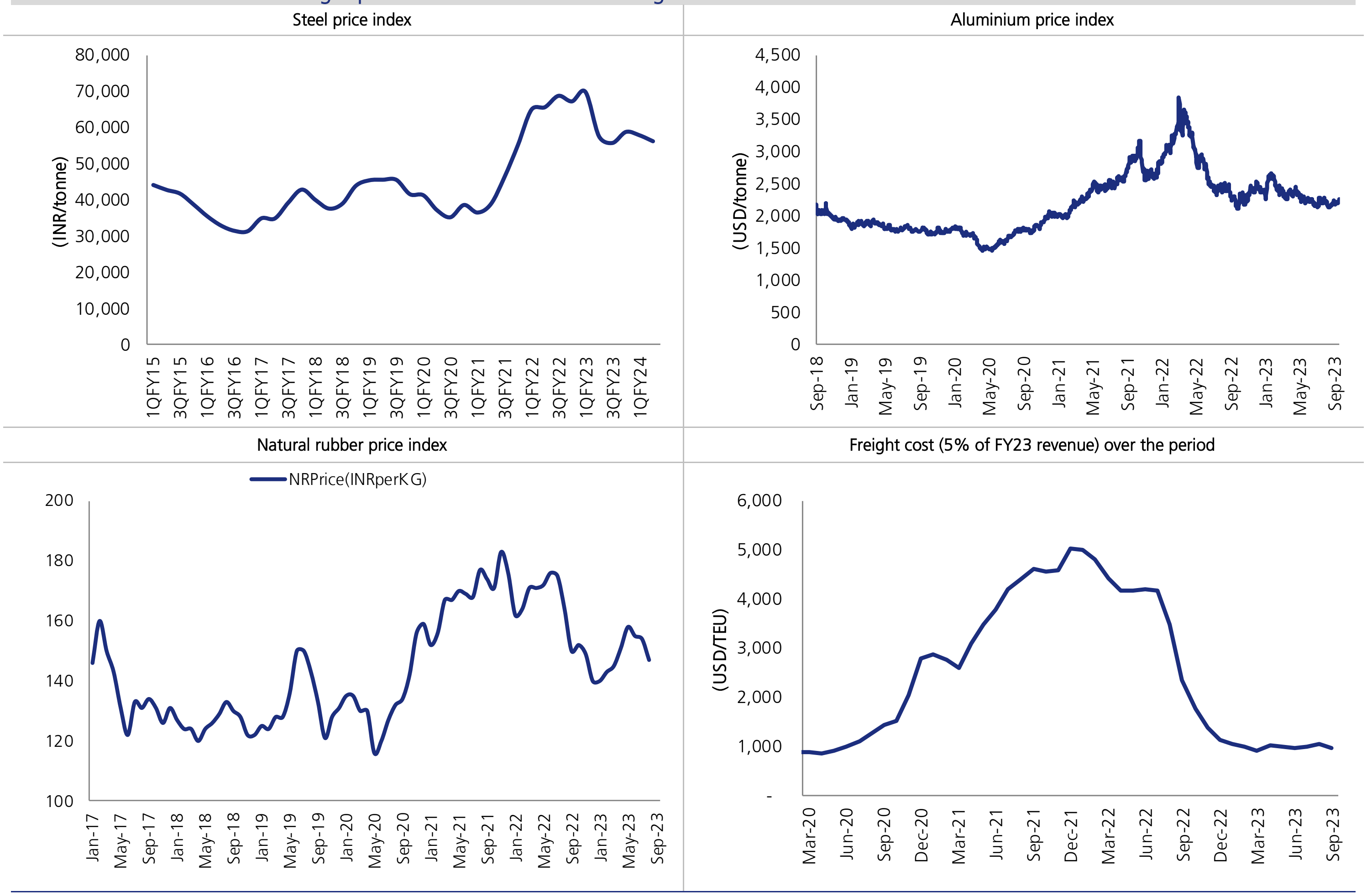
- **Gross margins robust led by high value addition; addition of MSEL to lead to moderation:** Tega's consumables business has historically generated robust gross margins of 58-60% and EBITDA margins of +20%. Mineral processing sites ordinarily refrain from switching suppliers and remain with an existing approved supplier. Further, liners typically forms 3-15% of the total operating costs, providing significantly leeway to Tega to pass on cost escalations to customers. Strengths in product development and customer stickiness have allowed Tega to pass on incremental cost pressures albeit with a lag of 2 quarters. This is reflected in the company's healthy margin profile. However, with foray into equipment (lower margin business) in order to enhance product offering to customer we could see compression in margins to some extent.

Exhibit 24. Revenue and EBITDA build up

In INRmn	Consumables	Equipment	Consolidated	Comments
Revenue build-up				
FY23 Revenue	11,776	368	12,144	MSEL consolidated wef 24th Feb-23. FY23 (12mths): INR 1.9bn
CAGR for FY23-26E	16.1%	NA	19.9%	Guidance: Consumables: 15% volume CAGR; MSEL: 15% Rev CAGR
FY26E Revenue	**18,401**	**2,530**	**20,931**	
EBITDA build-up				
FY23 EBITDA	2,630	74	2,705	MSEL consolidated wef 24th Feb-23.
FY23 EBITDA Margins	22.3%	20.2%	22.3%	FY23 EBITDA margin for MSEL not representative of the recurring business
FY26E EBITDA Margins	**21.0%**	**10.0%**	**19.7%**	Guidance: Consumables: 20-22%; MSEL: 10-12%
FY26E EBITDA	**3,864**	**253**	**4,117**	

Source: Company, JM Financial

Exhibit 25. Raw material and freight price environment remains benign

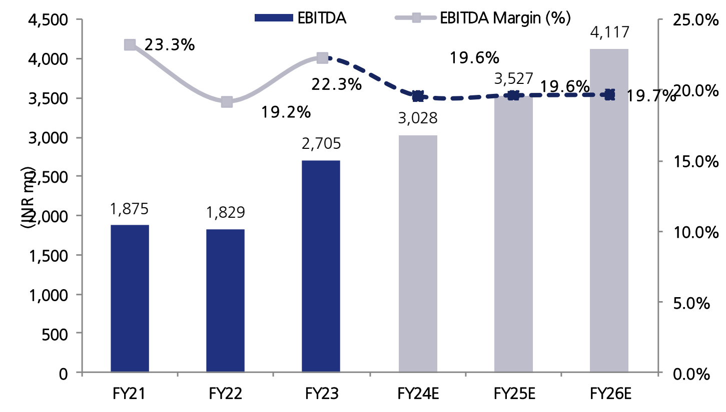


Source: Company, JM Financial, Bloomberg

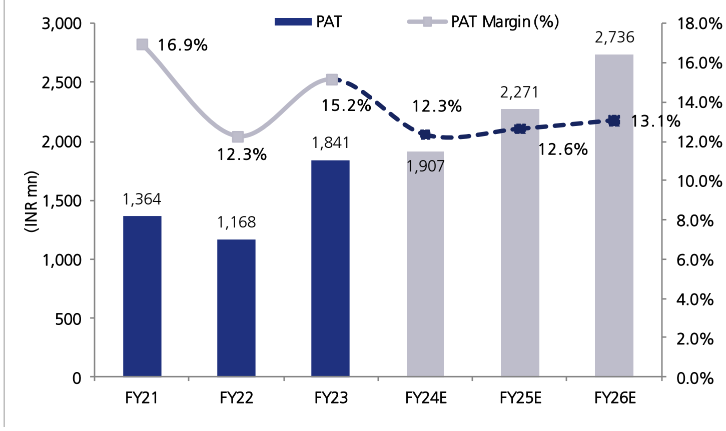
- **Expect EPS CAGR of 14% after factoring margin moderation due to MSEL acquisition:** We expect EBITDA CAGR of 15% over FY23-26E, lower than revenue CAGR of 20% due to decline in the margin profile post acquisition of MSEL. Having said that this acquisition materially enhances Tega's product profile and capabilities while also increasing the addressable market. We estimate adjusted net profit CAGR of 14% during FY23-26E.

Exhibit 26. EBITDA and PAT growth

EBITDA margin to moderate post MSEL acquisition



PAT to see 14% CAGR over FY23-26E

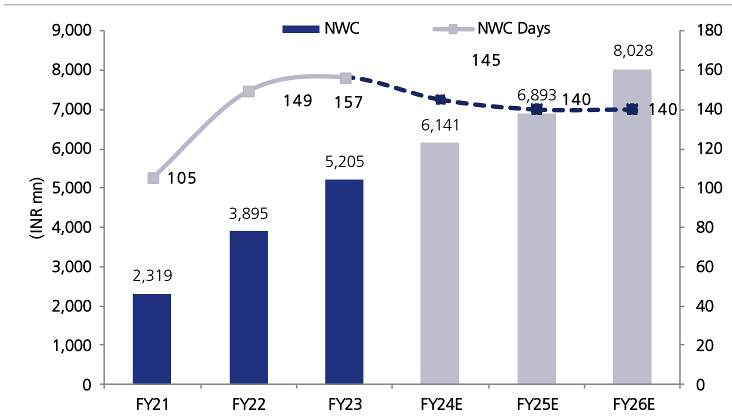


Source: Company, JM Financial

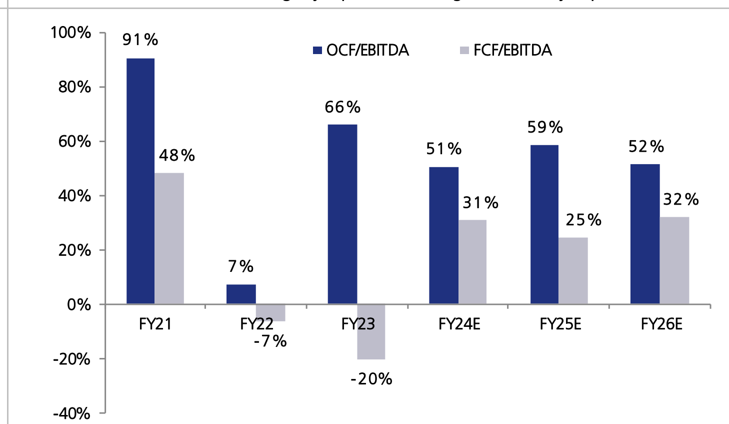
- **Working capital days to remain stable:** NWC had witnessed improvement in FY20/FY21 which was largely on the back of higher creditor days; however inventory and receivables continue to remain at similar levels. Going forward, we expect NWC days to remain stable at 140 days given ease in supply chain challenges and timely realisation of inventories and receivables. OCF/EBITDA has remained high in the past but declined in FY22 to 7% due to high NWC levels while FCF/EBITDA tumbled in FY22 but remained healthy over FY14-21. However with ease in supply chain issues it reverted back to 60% in FY23 and going forward we anticipate to remain in the range of 55-60%.

Exhibit 27. NWC days and cash conversion trends

NWC days to improve to 140 days



OCF/EBITDA to slightly dip on increasing NWC as OI jumps



Source: Company, JM Financial

- **MSEL acquisition to impact returns ratios in the near term:** As of FY23, Tega's net debt to equity remained comfortable at 0.1x, while NWC was 157 days. RoE for FY23 was 21%, mainly driven by net margin of 15% in FY23, while asset turnover remained in the range of 0.8-1. We expect RoE to moderate in FY24 led by impact on margins and capital costs post MSEL acquisition. However, with continued growth of 16% CAGR in the consumables business and ramp up in revenue from MSEL we expect the return ratios to start inching up from FY25 onwards.

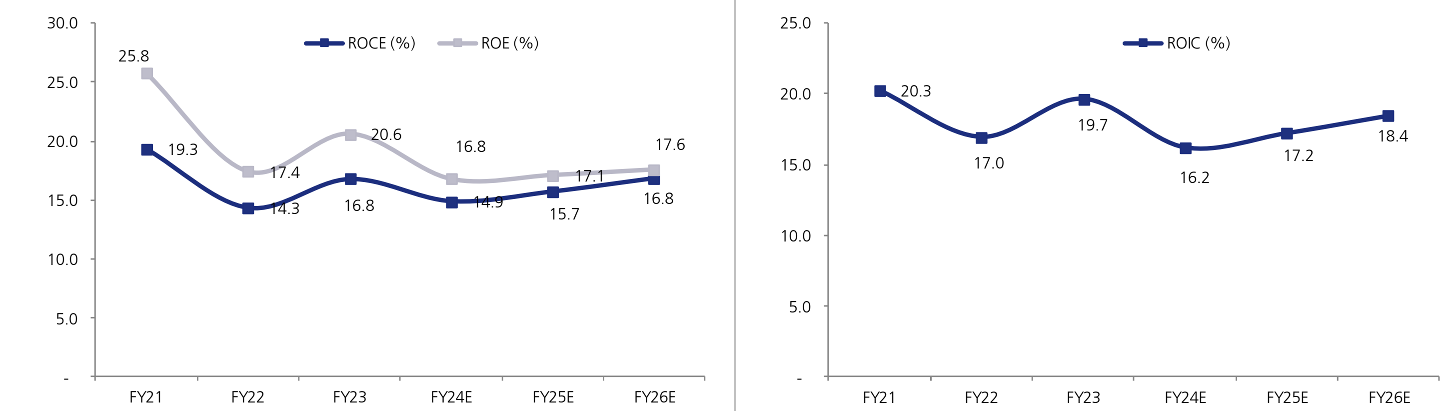
Exhibit 28. DuPont analysis

Dupont analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Margin (%)	16.9	12.3	15.2	12.3	12.6	13.1
Asset Turnover (x)	1.1	1.1	1.0	1.1	1.2	1.3
Leverage factor (x)	1.4	1.3	1.3	1.2	1.2	1.1
RoE (%)	**25.8**	**17.4**	**20.6**	**16.8**	**17.1**	**17.6**

Source: Company, JM Financial

Exhibit 29. RoE and RoIC profile

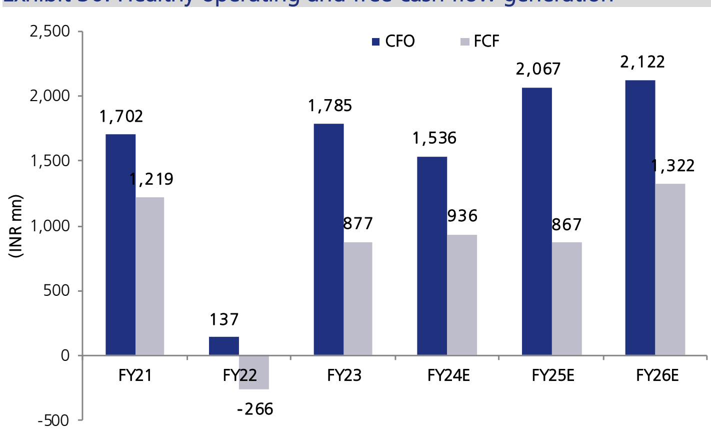
ROE and ROCE maintain a healthy profile | RoIC to start inching up after dip in FY24E



Source: Company, JM Financial

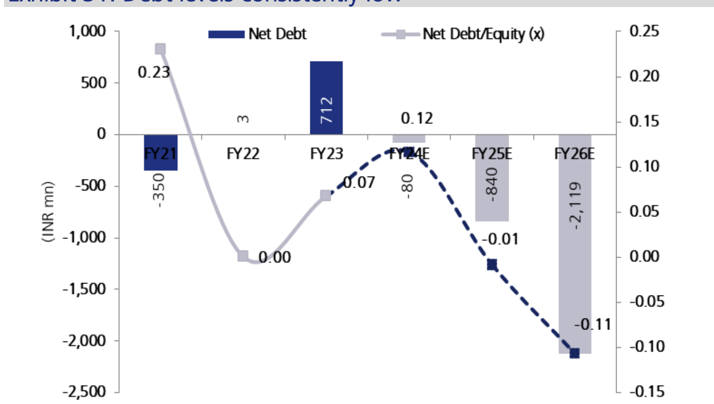
- **Decent cash flow profile:** Tega has been successfully generating positive operating cash flow over the past few years. It generated operating cash flows of INR 8.7bn over FY14-23 and has maintained debt at comfortable levels with an average net debt to equity ratio of 0.4x over the same period, as of FY23, net debt stood at INR 712mn. We believe the company will generate INR 5.7bn in operating cash flows over FY24-26E vs. INR 5.6bn over FY19-23 and free cash flows of INR 3.1bn over FY24-26E.

Exhibit 30. Healthy operating and free cash flow generation



Source: Company, JM Financial

Exhibit 31. Debt levels consistently low



Source: Company, JM Financial

- **Capex plans on track; doubling capacity in Chile:** Tega maintained its guidance of doubling capacity at Chile plant in 3-4 years (from 5000MT to 10000MT) and will ramp up capex in FY24 and FY25. Overall, the capex plans remains steady at USD30-35mn over 3 years. Of which, USD 22mn would be spent on Chile and balance in India and South Africa plants. About USD 2m is proposed to be infused in MSEL for modernisation and upkeep capex.

Healthy growth outlook, balance sheet and return ratios; maintain BUY

- We contrast and compare Tega with AIA Engineering and its global peers. The product profile varies across these companies, but the underlying growth drivers are similar. While Tega's business size and scale is much smaller compared to its larger India peer - AIA Engineering – its business profile has some key advantages as **a)** distributed manufacturing facilities eliminate risks related to logistics/travel, **b)** consistent introduction of new products has expanded its product basket to include liners, screens, and conveyor products to capture a wallet share of customers and **c)** low threat of non-tariff barriers on imports due to local manufacturing presence across different regions.

- We also compared valuation multiples with other consumable companies in segments such as bearings and abrasives. While mill liner products are consumable in nature, the end-user industry is much more concentrated than the non-mining consumables which cater to multiple end user industries. Also, industry growth rates in the mining segment are significantly lower due to its global spread, when compared with domestic automotive or industrial segments such as railways, wind energy, and material handling. Thus, we believe the valuation discount to other consumable companies is justified.

- **We value Tega Industries at PER of 30x Sept'25E EPS to arrive at a target price of INR1130**. Our target multiple is at a discount to other consumable companies, but in line with our target PE for AIA Engineering. When comparing with AIA, growth profile is higher for Tega though RoIC is lower than AIA even as RoE is similar (as AIA has high cash levels). Tega has a lower NWC days and better cash conversion cycle.

Exhibit 32. Comparison between Tega Industries and AIA Engineering

Particulars	FY23	FY18-23	FY23-26E	FY23	FY18-23	FY23-26E
	INR mn	CAGR/Avg	CAGR/Avg	INR mn	CAGR/Avg	CAGR/Avg
	Tega Industries			AIA Engineering		
Sales	12,140	17%	20%	49,088	15%	10%
EBITDA	2,705	29%	15%	12,407	18%	8%
PAT	1,841	55%	14%	10,559	19%	9%
Margins						
Gross	56.5%	59%	55%	57.9%	60%	59%
EBITDA	22.3%	20%	20%	25.3%	23%	24%
PAT	15.2%	13%	13%	21.5%	19%	21%
Cash conversion						
OCF/EBITDA	71%	74%	59%	70%	57%	58%
OCF/PAT	97%	103%	83%	82%	68%	67%
Return Ratios						
RoEs	21%	19%	17%	20%	16%	18%
RoIC	19%	17%	17%	28%	21%	27%
Others						
NWC Days	157	135	142	154	179	158
Total asset turnover (Revenue/NFA+NWC)	1.2	1.5	1.5	1.6	1.4	1.6

Source: Company, JM Financial

Exhibit 33. Peer group valuation table

Particulars	PE				EV/EBITDA				ROE%				Sales	EBITDA	EPS
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	3-Year CAGR		
Domestic mining consumables															
Tega Industries	19.3	32.3	27.1	22.5	14.1	20.9	17.8	14.9	20.6	16.8	17.1	17.6	20%	15%	14%
AIA Engineering	21.9	29.9	26.3	23.2	18.4	24.7	21.7	19.2	20.2	17.6	17.7	17.7	10%	8%	9%
Domestic non - mining consumables															
SKF India	39.8	39.5	34.2	28.6	26.6	29.1	24.8	20.6	24.8	25.4	25.8	27.1	13%	16%	19%
Schaeffler India	42.6	51.1	43.6	36.9	27.4	33.5	28.1	23.8	21.8	20.7	21.5	22.4	13%	14%	15%
Timken India	55.0	48.5	38.7	31.4	37.6	33.0	26.3	22.1	20.6	21.0	21.6	21.9	16%	22%	25%
Average	**45.8**	**46.4**	**38.9**	**32.3**	**30.5**	**31.9**	**26.4**	**22.2**	**22.4**	**22.4**	**23.0**	**23.8**			
International Peers															
Metso Outotec	15.8	13.4	12.9	12.1	9.5	8.9	8.7	8.2	13.1	23.9	22.3	21.4	5%	19%	32%
Weir Group	17.3	16.7	15.4	14.1	12.0	10.9	10.2	9.5	13.5	16.2	16.1	15.8	6%	9%	11%
FL Smidth	56.0	21.2	14.8	11.4	15.4	11.3	7.8	6.4	3.5	10.0	12.4	12.4	3%	32%	62%
Sandvik	15.1	15.7	14.9	13.9	10.1	10.0	9.6	9.2	14.2	18.6	18.0	17.5	3%	6%	5%
Average	26.0	16.8	14.5	12.9	11.7	10.2	9.1	8.3	11.1	17.1	17.2	16.8			

Source: Company, JM Financial, Bloomberg

Other key data points

Exhibit 34. Exposure to forex effectively managed through derivative instruments

As of Mar-23 (In INR mn)	CLP	AUD	CAD	EUR	USD	GBP	BWP	GHS	Total
Financial assets									
Trade receivables		13		250	1,517				1,779
Cash and Cash equivalents		1	0	1	77				78
Other advances	1				1	0	0		2
Foreign exchange forward contracts			-64		-1,643				-1,707
Net exposure to foreign currency risk (assets)	**1**	**13**	**-64**	**251**	**-48**	**0**	**0**	**-**	**153**
Financial liabilities									-
Trade and other payables				-41	-143			-10	-193
Other financial liabilities				-1	-13				-13
Borrowings				-107	-814				-921
Foreign exchange forward contracts/Foreign currency options	-	-115	-	-134	871				622
Net exposure to foreign currency risk (liabilities)	**-**	**-115**	**-**	**-282**	**-99**	**-**	**-**	**-10**	**-506**
Net exposure in assets/(liabilities)	**1**	**-102**	**-64**	**-32**	**-147**	**0**	**0**	**-10**	**-352**

Source: Company, JM Financial

Exhibit 35. Contingent liabilities at low levels

Particulars (INR mn)	as on Mar'22	as on Mar'23
Disputed excise duty	15.0	15.0
Disputed service tax	3.0	3.0
Disputed income tax	65.0	65.0
Disputed sales tax	7.0	7.0
Pending finalisation of legal/ arbitration proceedings	4.0	-

Source: Company, JM Financial

1QFY24 Quarterly results: Key metrics

Exhibit 36. Quarterly performance – Consolidated

Y/E March (INRmn)	1QFY23	1QFY24	% YoY	4QFY23	% QoQ	1QFY24E	Var (%)	FY22	FY23	% YoY
Net Sales	**2,444**	**2,681**	**9.7**	**3,964**	**-32.4**	**3,080**	**-13.0**	**9,518**	**12,140**	**27.6**
Expenditure	1,983	2,287	15.4	2,936	-22.1	2,418	-5.4	7,690	9,436	22.7
EBITDA	**462**	**393**	**-14.8**	**1,028**	**-61.7**	**662**	**-40.6**	**1,828**	**2,704**	**47.9**
EBITDA (%)	**18.9**	**14.7**	**-420bps**	**25.9**	**-1130bps**	**21.5**	**-680bps**	**19.2**	**22.3**	**310bps**
Other income	25	81	230.5	66	22.4	34	136.1	243	264	8.7
Depreciation	91	135	48.1	121	12.3	125	8.3	387	412	6.5
EBIT	395	339	-14.1	974	-65.2	571	-40.6	1,684	2,556	51.8
Interest	50	82	64.5	32	156.5	48	70.4	162	181	11.8
PBT after EoI	288	258	-10.5	942	-72.7	523	-50.8	1,522	2,318	52.3
Tax	67	53	-21.6	183	-71.2	131	-59.7	381	521	36.8
Tax rate (%)	23.4	20.5		19.4		25.0		25.0	22.5	
Adjusted PAT	**288**	**214**	**-25.7**	**773**	**-72.3**	**392**	**-45.5**	**1,169**	**1,898**	**62.3**
Adjusted EPS (INR)	**4.3**	**3.2**	**-25.7**	**11.7**	**-72.3**	**5.9**	**-45.5**	**17.6**	**28.6**	**62.3**

Source: Company, JM Financial

Exhibit 37. Cost break-up – Consolidated

Y/E March (INRmn)	1QFY23	1QFY24	% YoY	4QFY23	% QoQ	1QFY24E	% YoY E	FY22	FY23	% YoY
COGS	1,009	1,111	10.0	1,759	-36.9	1,355	-18.1	4,026	5,276	31.0
as a % of sales	41.3	41.4	10bps	44.4	-300bps	44.0	-260bps	42.3	43.5	120bps
Staff Cost	385	489	26.9	422	15.9	416	17.5	1,434	1,627	13.4
as a % of sales	15.8	18.3	250bps	10.7	760bps	13.5	470bps	15.1	13.4	-170bps
Other Expenditure	588	688	17.0	754	-8.9	647	6.3	2,229	2,532	13.6
as a % of sales	24.0	25.6	160bps	19.0	660bps	21.0	460bps	23.4	20.9	-260bps

Source: Company, JM Financial

Exhibit 38. Segmental Performance – Consolidated

INR mn	1QFY23	1QFY24	YoY%	4QFY23	QoQ%	FY22	FY23	YoY%
Segmental Revenue								
Consumables	2,444	2,240	-8.4%	3,600	-37.8%	9,518	11,776	23.7%
% of net sales	100%	84%		91%		100%	97%	
Equipment	-	443	NA	368	20.6%	-	368	NA
% of net sales	0%	15%		3%		0%	3%	
Total	2,444	2,683		3,968		9,518	12,144	
Segmental Results								
Consumables	462	355	-23.1%	955	-62.8%	1,828	2,631	43.9%
% Margins	19%	16%		27%		19%	22%	
Equipment	-	39	NA	75	-48.4%	-	75	-
% Margins		9%						
Total	462	394		1,030	-61.8%	1,828	2,706	48.0%
% Margins	19%	15%		26%		19%	22%	

Source: Company, JM Financial

Key highlights of 1QFY24 results

- **Revenue growth subdued due to temporary disruption:** Net sales grew by 10% YoY to INR2.7bn (JMFe: INR3.1bn). Revenue miss was on account of muted volume growth due to temporary unavailability of containers (revenue miss of INR 200mn as guided by the management due to this).
- **Volume growth, pricing and order book:** Mill liners (-10% YoY) and non-mill liners: + 34% YoY. Price hike of 1-1.5% YoY (taken in 3QFY23) and INR depreciation impact of 2%. Order book stands at INR5.2bn an increase of 8% YoY.
- **EBITDA margins impacted by adverse operating leverage; PAT weak:** Gross margins remained stable despite continued disruptions aided by pass-through of higher costs in earlier qtrs. EBITDA declined 15% YoY to INR393mn (JMFe INR662mn), as margins came in at 14.7% (JMFe 21.5%) due to adverse operating leverage. One time professional and legal expenses related to McNally acquisition to the extent of INR40mn impacted EBITDA margins during the quarter. PAT declined by 26% YoY to INR214mn (JMFe INR392mn).

Key conference call takeaways

- **Guidance of 15% volume CAGR:** Management highlighted that the company would sustain volume growth of 15% CAGR for the consumables business and expects similar pace of growth in Mcnally Sayaji over next 3-4 years. Within this the growth in DynaPrime product is likely to much stronger at 25% CAGR.
- **McNally Sayaji to drive synergies:** Acquisition of McNally Sayaji presents backward integration opportunity for Tega Industries in the equipment space. Also, this opens up a new market domain for Tega and equipment market is much bigger than the spares market (TAM of USD 1.4bn in the consumables business; TAM for the McNally business is INR 30-35bn in India initially and ultimately USD 20bn on a global scale). Also, it will add to Tega's customer base due to a larger installed base of Sayaji equipment. Going forward company intends to take these products global.
- **Capex plans for the company**: Management highlighted a capex plan of USD32mn over next 3 years. It included infusion of INR150mn (USD2mn) in Sayaji, as part of its acquisition plan under NCLT. Further, it is adding greenfield capacity in Chile and small bit in Africa and India. Total capex in Chile is expected at USD20mnm where land acquisition is completed. This expansion in Chile would effectively double Tega's installed capacity in the country. Further around USD10mn capex would be incurred between Africa and India for Mill Liners. This takes the total capex to USD32mn over 2-3 years.
- **Segment wise growth**: Mill liners grew at 20-21% in FY23, which form 70% of sales and non-mill liners grew by 25-26% in FY23 The company has stopped disclosing Dynaprime and other product level sales separately due to strategic reasons. The revenue reporting now comprises of split between consumables and equipment (MSEL) businesses.
- **Chile government nationalising mines:** Management highlighted that situation in Chile is stable despite political turmoil. Changes in political parties at helm are still happening and some policies may reverse in near future. Currently, Chile accounts for 40% of global copper production, so it may be difficult to change the industry structure materially.

Key Managerial Personnel

Madan Mohan Mohanka

He is founding Promoter of the company, and the Chairman and Executive Director of Tega. He holds a bachelor's degree in science (engineering) from Ranchi University and a post graduate diploma in business administration from Indian Institute of Management, Ahmedabad. He has been associated with the company since its incorporation.

Mehul Mohanka

He is one of the Promoters of Tega, and the Managing Director and Group CEO of the company. He holds a bachelor's degree in commerce from University of Calcutta. He also completed MBA from University of Pittsburgh and an advanced management programme from Harvard Business School. He has been with associated various industry associations in different capacities. He has been associated with the company for almost two decades and has been instrumental in diverse functions such as sales and operations.

Syed Yaver Imam

He is the Executive Director of Tega and has been designated as Director – Global Product Group. He holds a bachelor's degree in civil engineering from Jadavpur University and has completed a short-term course in mineral processing from Indian School of Mines, Dhanbad. He has been associated with the company since 2005.

Manoj Kumar Sinha

He is Director Operations. He has been associated with Tega since September 28, 2015. He was previously associated with Tata Engineering and Locomotive Company Limited, New Holland Tractors (India) Private Limited and Sterling Generators Private Limited.

Key Risks

Inability to comply with quality standards may adversely impact operations

During FY15-17, some customers experienced defects in certain products manufactured at the manufacturing facility in Dahej, Gujarat. Tega incurred significant costs for replacement and implementing preventive measures, and suffered customer churn, which adversely affected order book and revenue. The company incurred an expenditure of approximately INR106mn over FY16-17 in replacing the defective products.

Cancellations in orders or inability to forecast demand may impact operations

Occurrence of unforeseen events may lead to the cancellation of orders or deferment of revenue. The company's long-term contracts are typically of 2-3 years, which may result in termination of the relationship with little or no notice. Further, the absence of contractual exclusivity to the business arrangements poses a risk on the company's ability to continue to supply products to the customers.

Adverse movement in currency may impact revenues and margins

Tega is exposed to foreign exchange rate fluctuations (mainly in USD and Chilean Peso) in respect of (i) revenue from overseas business in foreign denominations; (ii) its foreign currency denominated borrowings; (iii) currency translation losses for the purpose of preparing the consolidated financial statements (which are presented in Indian Rupees), on account of global operations; and (iv) value of foreign assets.

Tega may be subject to significant import duties or restrictions

Tega's key overseas markets include North America, South America, Africa, EMER and Asia Pacific. Export destination countries may also enter into free trade agreements or regional trade agreements with countries other than India. This may lead to increased competition or may even place it at a competitive disadvantage.

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	9,518	12,140	15,457	17,970	20,931
Sales Growth	18.2%	27.6%	27.3%	16.3%	16.5%
Other Operating Income	0	0	0	0	0
Total Revenue	**9,518**	**12,140**	**15,457**	**17,970**	**20,931**
Cost of Goods Sold/Op. Exp	4,026	5,277	6,956	8,086	9,419
Personnel Cost	1,434	1,627	2,023	2,337	2,676
Other Expenses	2,229	2,532	3,451	4,019	4,719
EBITDA	**1,829**	**2,705**	**3,028**	**3,527**	**4,117**
EBITDA Margin	19.2%	22.3%	19.6%	19.6%	19.7%
EBITDA Growth	-2.5%	47.9%	12.0%	16.5%	16.7%
Depn. & Amort.	387	412	585	640	712
EBIT	1,442	2,293	2,443	2,887	3,405
Other Income	241	207	322	321	334
Finance Cost	162	181	301	230	144
PBT before Excep. & Forex	1,521	2,318	2,464	2,979	3,595
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,521	2,318	2,464	2,979	3,595
Taxes	381	521	602	757	912
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-28	-43	-45	-49	-53
Reported Net Profit	1,168	1,841	1,907	2,271	2,736
Adjusted Net Profit	**1,168**	**1,841**	**1,907**	**2,271**	**2,736**
Net Margin	12.3%	15.2%	12.3%	12.6%	13.1%
Diluted Share Cap. (mn)	66.3	66.4	66.5	66.5	66.5
Diluted EPS (INR)	**17.6**	**27.7**	**28.7**	**34.2**	**41.2**
Diluted EPS Growth	-14.4%	57.4%	3.5%	19.1%	20.5%
Total Dividend + Tax	133	133	166	199	233
Dividend Per Share (INR)	2.0	2.0	2.5	3.0	3.5

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	7,360	10,490	12,231	14,303	16,806
Share Capital	663	664	665	665	665
Reserves & Surplus	6,697	9,826	11,567	13,639	16,142
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	2,149	3,095	2,295	1,695	395
Def. Tax Liab. / Assets (-)	-143	-115	-115	-115	-115
Total - Equity & Liab.	**9,367**	**13,469**	**14,411**	**15,883**	**17,086**
Net Fixed Assets	2,440	4,978	4,992	5,552	5,640
Gross Fixed Assets	4,166	9,645	9,865	11,465	12,265
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	1,828	4,788	5,373	6,013	6,725
Capital WIP	102	120	500	100	100
Investments	1,985	2,169	2,169	2,169	2,169
Current Assets	7,134	9,032	10,850	12,346	14,151
Inventories	2,521	2,896	3,600	4,185	4,874
Sundry Debtors	2,765	4,031	4,870	5,416	6,308
Cash & Bank Balances	402	493	485	644	624
Loans & Advances	214	412	847	985	1,147
Other Current Assets	1,232	1,199	1,048	1,117	1,198
Current Liab. & Prov.	2,192	2,709	3,600	4,185	4,874
Current Liabilities	967	1,119	1,694	1,969	2,294
Provisions & Others	1,225	1,590	1,906	2,215	2,581
Net Current Assets	4,942	6,323	7,250	8,162	9,277
Total – Assets	**9,367**	**13,469**	**14,411**	**15,883**	**17,086**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	1,550	2,361	2,509	3,028	3,648
Depn. & Amort.	387	412	585	640	712
Net Interest Exp. / Inc. (-)	98	161	-21	-92	-190
Inc (-) / Dec in WCap.	-1,464	-748	-936	-752	-1,136
Others	-3	56	0	0	0
Taxes Paid	-431	-457	-602	-757	-912
Operating Cash Flow	**137**	**1,785**	**1,536**	**2,067**	**2,122**
Capex	-403	-909	-600	-1,200	-800
Free Cash Flow	-266	877	936	867	1,322
Inc (-) / Dec in Investments	146	-1,429	0	0	0
Others	0	0	0	0	0
Investing Cash Flow	**-256**	**-2,338**	**-600**	**-1,200**	**-800**
Inc / Dec (-) in Capital	0	2	1	0	0
Dividend + Tax thereon	0	0	-166	-199	-233
Inc / Dec (-) in Loans	249	877	-800	-600	-1,300
Others	-218	-249	21	92	190
Financing Cash Flow	**31**	**630**	**-944**	**-708**	**-1,343**
Inc / Dec (-) in Cash	**-88**	**78**	**-8**	**160**	**-20**
Opening Cash Balance	490	402	493	485	644
Closing Cash Balance	402	493	485	644	624

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	12.3%	15.2%	12.3%	12.6%	13.1%
Asset Turnover (x)	1.1	1.0	1.1	1.2	1.3
Leverage Factor (x)	1.3	1.3	1.2	1.2	1.1
RoE	17.3%	20.6%	16.8%	17.1%	17.6%

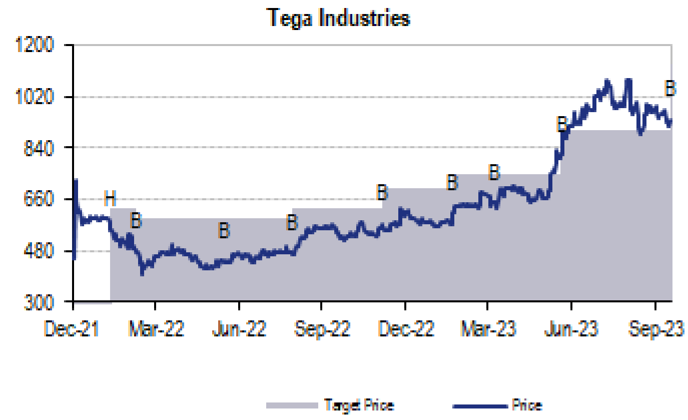
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	111.0	158.1	184.1	215.2	252.9
ROIC	16.4%	19.2%	15.8%	16.8%	18.1%
ROE	17.3%	20.6%	16.8%	17.1%	17.6%
Net Debt/Equity (x)	0.0	0.1	0.0	-0.1	-0.1
P/E (x)	29.9	19.3	32.7	27.5	22.8
P/B (x)	4.7	3.4	5.1	4.4	3.7
EV/EBITDA (x)	20.1	14.1	21.2	18.0	15.1
EV/Sales (x)	3.9	3.1	4.2	3.5	3.0
Debtor days	106	121	115	110	110
Inventory days	97	87	85	85	85
Creditor days	46	43	50	50	50

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
21-Jan-22	Hold	630	
17-Feb-22	Buy	590	-6.3
26-May-22	Buy	590	0.0
8-Aug-22	Buy	630	6.8
14-Nov-22	Buy	700	11.1
31-Jan-23	Buy	750	7.1
18-Mar-23	Buy	750	0.0
30-May-23	Buy	900	20.0
26-Sep-23	Buy	1,130	25.6

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd. and National Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com
Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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