

# Tega Industries | BUY

## Consumable business drives growth; positive outlook intact

Tega industries reported quarterly revenue in line with our estimate. Revenue growth of 26.8% was mainly due to carry forward revenue from 4Q spill over and service business. Equipment business in 1QFY25 declined 18.7% YoY, mainly due to delays from customer end. McNally entered into a contract as a consortium member with NMDC, to execute contract with revenue potential for Tega would be INR 1.2bn (total project cost INR 8.2bn) to be executed in 26 months. Supply chain challenges still persist due to congestion at major ports; however company has taken proactive steps to mitigate the impact, it will also pass on the increase in freight cost to the customers. Planned capex of c. USD 30mn over next couple of years, majorly towards Chile plant and INR 150-200mn towards Equipment business. Management guided for revenue growth of 15% and EBITDA margins in range of 21-22% for FY25. We expect Dynaprime will continue to be key growth driver along with additional revenue coming from McNally's equipment business.

- Revenue carry forward from 4Q drives growth:** Revenue grew 26.8% YoY to INR 3.4bn, 4.5% above JMFe of INR 3.3bn. Consumables segment grew 36% YoY to INR 3bn. Equipment business revenue declined 18.7% YoY and to INR 360mn. EBITDA grew 63% YoY to INR 642mn (JMFe of INR 547mn), with EBITDA margin came in at 18.9% up 420bps YoY (JMFe 16.8%), mainly due to lower other expenses as % of sales 23.7% vs 25.6% YoY and employee cost 16.9% vs 18.3% YoY. On segmental basis- Consumables margins expanded to 21.3% vs 15.8% YoY, while equipment business reported loss of INR 4mn vs profit of INR 309mn YoY. PAT grew 72% YoY to INR 367mn (JMFe of INR 295mn), aided by higher other income up 43% YoY.
- Equipment business impacted during the quarter:** Equipment business revenue were impacted, mainly due to delay in receipt of payment, inspection and delay in dispatch clearance certificated from certain customer, which is expected to be covered in 2QFY25 revenues. This resulted in EBITDA loss of INR 4mn in 1Q. Integration exercise is progressing as per plan and company continues to focus on cost control and improving efficiencies. Margin for full year is likely to be 10-11%.
- Started construction at Chile plant:** Tega has commenced the construction work at Chile plant and is expected to be completed by Jun'25. Revenue potential from the Chile Plant is c.USD 100mn and will be target to cater to Latin American market.
- Maintain BUY with revised TP of INR 2,010:** We remain positive on stock due to a) healthy penetration opportunity for DynaPrime lines, b) cross selling opportunity for equipment (McNally), c) upcoming Chile plant to tap LATAM markets and d) expansion in newer geographies (recently incorporated subsidiary in Peru). We expect revenue and earnings CAGR of 19%/27% over FY24-26E, factoring in 19% revenue CAGR in consumable business and 16% CAGR in equipment business. Maintain BUY rating on stock with revised TP of INR 2,010 based on 43x FY26E (37x FY26E earlier). **Key risk:** delay in normalisation of supply chain and unable to harness McNally integration benefit.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,010
Upside/(Downside)	12.2%
Previous Price Target	1,690
Change	18.9%

### Key Data – TEGA IN

Current Market Price	INR1,791
Market cap (bn)	INR119.1/US\$1.4
Free Float	25%
Shares in issue (mn)	66.3
Diluted share (mn)	66.5
3-mon avg daily val (mn)	INR144.2/US\$1.7
52-week range	1,971/842
Sensex/Nifty	78,886/24,117
INR/US\$	84.0

### Price Performance

%	1M	6M	12M
Absolute	5.1	54.0	78.6
Relative*	7.0	39.8	49.4

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	9,518	12,140	14,927	17,299	21,031
Sales Growth (%)	18.2	27.6	23.0	15.9	21.6
EBITDA	1,829	2,705	3,160	3,620	4,542
EBITDA Margin (%)	19.2	22.3	21.2	20.9	21.6
Adjusted Net Profit	1,168	1,841	1,939	2,307	3,113
Diluted EPS (INR)	17.6	27.7	29.1	34.7	46.8
Diluted EPS Growth (%)	-14.4	57.4	5.0	19.0	34.9
ROIC (%)	16.4	19.2	17.3	17.9	20.5
ROE (%)	17.3	20.6	17.3	17.8	20.1
P/E (x)	101.6	64.6	61.5	51.6	38.3
P/B (x)	16.1	11.3	10.0	8.5	7.0
EV/EBITDA (x)	64.6	44.0	37.3	32.5	25.7
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2

Source: Company data, JM Financial. Note: Valuations as of 08/Aug/2024

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Change in estimate**

Particulars (INR mn)	Revised Estimates		Previous Estimates		% chg	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	17,299	21,031	17,299	20,967	0.0	0.3
EBITDA	3,620	4,542	3,575	4,481	1.3	1.4
EBITDA Margin (%)	20.9	21.6	20.7	21.4	30bps	20bps
Adj PAT	2307	3113	2302	3041	0.2	2.4

Source: Company, JM Financial

**Exhibit 2. Quarterly performance**

Y/E March (INRmn)	1QFY24	1QFY25	% YoY	4QFY24	% QoQ	1QFY25E	Var (%)
<b>Net Sales</b>	<b>2,681</b>	<b>3,400</b>	<b>26.8</b>	<b>5,070</b>	<b>-32.9</b>	<b>3,253</b>	<b>4.5</b>
Expenditure	2,287	2,757	20.6	3,681	-25.1	2,706	1.9
EBITDA	393	642	63.3	1,388	-53.7	547	17.5
<b>EBITDA (%)</b>	<b>14.7</b>	<b>18.9</b>	<b>420bps</b>	<b>27.4</b>	<b>-850bps</b>	<b>16.8</b>	<b>210bps</b>
Other income	81	116	43.1	42	177.6	65	78.8
Depreciation	135	227	67.5	224	1.4	142	59.5
EBIT	339	532	56.8	1,207	-55.9	470	13.2
Interest	82	67	-18.0	73	-8.5	86	-21.9
Extraordinary item	0	0		0		0	
PBT after Eol	258	465	80.5	1,133	-59.0	384	21.1
Tax	53	109	107.6	255	-57.0	99	10.2
Tax rate (%)	20.5	23.5		22.5		25.9	
Tax on Eol (assumed)	0	0		0		0	
PAT before MI/SA	205	356	73.5	879	-59.5	285	24.9
Minority/Share of associates	-9	-12		-16	-26.2	-10	19.9
<b>Adjusted PAT</b>	<b>214</b>	<b>367</b>	<b>71.8</b>	<b>895</b>	<b>-58.9</b>	<b>295</b>	<b>24.7</b>
<b>Adjusted EPS (INR)</b>	<b>3.2</b>	<b>5.5</b>	<b>71.8</b>	<b>13.5</b>	<b>-58.9</b>	<b>4.4</b>	<b>24.7</b>

Source: Company, JM Financial

**Exhibit 3. Cost Breakup**

Y/E March (INRmn)	1QFY24	1QFY25	% YoY	4QFY24	% QoQ	1QFY25E	Var (%)
COGS	1,111	1,378	24.1	2,280	-39.6	1,366	0.9
as a % of sales	41.4	40.5	-90bps	45.0	-440bps	42.0	-150bps
Staff Cost	489	574	17.3	566	1.3	618	-7.2
as a % of sales	18.3	16.9	-140bps	11.2	570bps	19.0	-210bps
Other Expenditure	688	805	17.1	835	-3.5	722	11.6
as a % of sales	25.6	23.7	-200bps	16.5	720bps	22.2	150bps

Source: Company, JM Financial

**Exhibit 4. Segmental Performance**

INR mn	1QFY24	1QFY25	YoY%	4QFY24	QoQ%
Segmental Revenue					
Consumables	2,240	3,046	36.0%	4,493	-32.2%
% of net sales	84%	90%		89%	
Equipment's	443.19	360	-18.7%	586	-38.5%
% of net sales	17%	12%		5%	
<b>Total</b>	<b>2,683</b>	<b>3,406</b>		<b>5,079</b>	
Segmental Results					
Consumables	355	648	82.6%	1,360	-52.3%
% Margins	15.85%	21.28%	0bps	30%	
Equipments	39	-4	NA	29	AN
% Margins	9%	-1%		5%	
<b>Total</b>	<b>394</b>	<b>644</b>		<b>1,389</b>	<b>-53.6%</b>

Source: Company, JM Financial

## Key Conference call Highlights

- **Guidance maintained:** Management maintained its revenue guidance of 15% growth with EBITDA margins of 21-22% on blended basis for FY25.
- 1QFY25 revenues were higher due to revenue carry forward from 4QFY24 spill over (INR 700mn).
- OB as on 1QFY25 stands at INR 5.6bn, vs INR 5.2bn YoY, excl. long term order.
- **Equipment business (McNally):** Revenues were impacted due to delay in receipt of payment, inspection and delay in dispatch clearance certificated from certain customer. Confident to meet revenue growth guidance of 15% for FY25.
  - McNally entered into a contract as a consortium member with NMDC. The contract is for manufacture, supply, erection, testing and commissioning of new seven MTPA iron ore screening & beneficiation plant-II (SP-II) (Package-I) at Donimalai Complex in Bellary, Karnataka on turnkey basis. Total contract value is c. INR 8.2bn and Tega share is c. INR 1.2bn and executed over 26 months.
- Supply Chain challenges persists due to shipping challenges on account of congestion at major ports resulted in delay in container turnaround time.
  - Rise in shipping cost will be passed on to the customers.
- **Chile project:** Started construction of plant at Chile and expect the facility to start by June'25. Chile plant will strengthen presence in Latin America.
- **Capex:** Planned capex of USD 30mn over next couple of years, majority will be towards Chile plant and c.INR 150-200mn towards equipment business.

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	9,518	12,140	14,927	17,299	21,031	
Sales Growth	18.2%	27.6%	23.0%	15.9%	21.6%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>9,518</b>	<b>12,140</b>	<b>14,927</b>	<b>17,299</b>	<b>21,031</b>	
Cost of Goods Sold/Op. Exp	4,026	5,277	6,455	7,525	9,043	
Personnel Cost	1,434	1,627	2,199	2,541	2,909	
Other Expenses	2,229	2,532	3,114	3,613	4,537	
<b>EBITDA</b>	<b>1,829</b>	<b>2,705</b>	<b>3,160</b>	<b>3,620</b>	<b>4,542</b>	
EBITDA Margin	19.2%	22.3%	21.2%	20.9%	21.6%	
EBITDA Growth	-2.5%	47.9%	16.8%	14.6%	25.5%	
Depn. & Amort.	387	412	637	708	713	
EBIT	1,442	2,293	2,523	2,912	3,829	
Other Income	241	207	222	272	307	
Finance Cost	162	181	320	260	183	
PBT before Excep. & Forex	1,521	2,318	2,425	2,924	3,953	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,521	2,318	2,425	2,924	3,953	
Taxes	381	521	531	670	904	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-28	-43	-44	-53	-64	
Reported Net Profit	1,168	1,841	1,939	2,307	3,113	
<b>Adjusted Net Profit</b>	<b>1,168</b>	<b>1,841</b>	<b>1,939</b>	<b>2,307</b>	<b>3,113</b>	
Net Margin	12.3%	15.2%	13.0%	13.3%	14.8%	
Diluted Share Cap. (mn)	66.3	66.4	66.5	66.5	66.5	
<b>Diluted EPS (INR)</b>	<b>17.6</b>	<b>27.7</b>	<b>29.1</b>	<b>34.7</b>	<b>46.8</b>	
Diluted EPS Growth	-14.4%	57.4%	5.0%	19.0%	34.9%	
Total Dividend + Tax	133	133	133	200	233	
Dividend Per Share (INR)	2.0	2.0	2.0	3.0	3.5	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	7,360	10,490	11,918	14,026	16,906	
Share Capital	663	664	665	665	665	
Reserves & Surplus	6,697	9,826	11,253	13,361	16,241	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	2,149	3,095	2,431	2,231	1,431	
Def. Tax Liab. / Assets (-)	-143	-115	-136	-136	-136	
<b>Total - Equity &amp; Liab.</b>	<b>9,367</b>	<b>13,469</b>	<b>14,214</b>	<b>16,121</b>	<b>18,201</b>	
Net Fixed Assets	2,440	4,978	5,497	5,989	6,477	
Gross Fixed Assets	4,166	9,645	10,814	12,014	13,214	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,828	4,788	5,425	6,132	6,845	
Capital WIP	102	120	107	107	107	
Investments	1,985	2,169	2,791	2,891	2,891	
Current Assets	7,134	9,032	10,424	11,507	13,731	
Inventories	2,521	2,896	3,701	4,076	4,898	
Sundry Debtors	2,765	4,031	4,473	5,166	6,280	
Cash & Bank Balances	402	493	867	939	1,075	
Loans & Advances	214	412	171	237	288	
Other Current Assets	1,232	1,199	1,212	1,088	1,190	
Current Liab. & Prov.	2,192	2,709	4,498	4,266	4,898	
Current Liabilities	967	1,119	1,834	1,659	2,017	
Provisions & Others	1,225	1,590	2,665	2,607	2,881	
Net Current Assets	4,942	6,323	5,926	7,241	8,834	
<b>Total - Assets</b>	<b>9,367</b>	<b>13,469</b>	<b>14,214</b>	<b>16,121</b>	<b>18,201</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	1,550	2,361	2,470	2,977	4,017	
Depn. & Amort.	387	412	637	708	713	
Net Interest Exp. / Inc. (-)	98	161	258	-12	-124	
Inc (-) / Dec in WCap.	-1,464	-748	-402	-1,243	-1,457	
Others	-3	56	-21	0	0	
Taxes Paid	-431	-457	-420	-670	-904	
<b>Operating Cash Flow</b>	<b>137</b>	<b>1,785</b>	<b>2,521</b>	<b>1,760</b>	<b>2,244</b>	
Capex	-403	-909	-554	-1,200	-1,200	
Free Cash Flow	-266	877	1,967	560	1,044	
Inc (-) / Dec in Investments	146	-1,429	-353	-100	0	
Others	0	0	0	0	0	
<b>Investing Cash Flow</b>	<b>-256</b>	<b>-2,338</b>	<b>-907</b>	<b>-1,300</b>	<b>-1,200</b>	
Inc / Dec (-) in Capital	0	2	6	0	0	
Dividend + Tax thereon	0	0	0	-200	-233	
Inc / Dec (-) in Loans	249	877	-669	-200	-800	
Others	-218	-249	-489	12	124	
<b>Financing Cash Flow</b>	<b>31</b>	<b>630</b>	<b>-1,152</b>	<b>-388</b>	<b>-909</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-88</b>	<b>78</b>	<b>462</b>	<b>72</b>	<b>136</b>	
Opening Cash Balance	490	402	493	867	939	
Closing Cash Balance	402	493	867	939	1,075	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	12.3%	15.2%	13.0%	13.3%	14.8%	
Asset Turnover (x)	1.1	1.0	1.1	1.1	1.2	
Leverage Factor (x)	1.3	1.3	1.3	1.2	1.1	
RoE	17.3%	20.6%	17.3%	17.8%	20.1%	

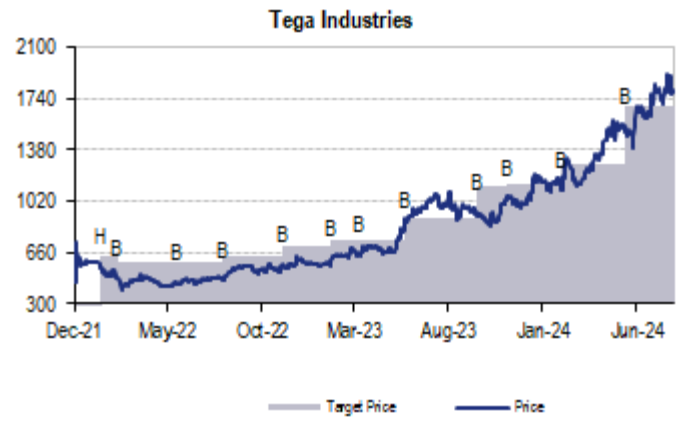
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	111.0	158.1	179.1	210.8	254.1	
ROIC	16.4%	19.2%	17.3%	17.9%	20.5%	
ROE	17.3%	20.6%	17.3%	17.8%	20.1%	
Net Debt/Equity (x)	0.0	0.1	0.0	0.0	-0.1	
P/E (x)	101.6	64.6	61.5	51.6	38.3	
P/B (x)	16.1	11.3	10.0	8.5	7.0	
EV/EBITDA (x)	64.6	44.0	37.3	32.5	25.7	
EV/Sales (x)	12.4	9.8	7.9	6.8	5.5	
Debtor days	106	121	109	109	109	
Inventory days	97	87	91	86	85	
Creditor days	46	43	57	44	45	

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
11-Nov-23	Buy	1,145	1.3
9-Feb-24	Buy	1,275	11.4
23-May-24	Buy	1,690	32.5

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

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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.
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\* REITs refers to Real Estate Investment Trusts.

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