

TEGA INDUSTRIES LIMITED

Soft quarter, guidance maintained

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Tega Industries had a decent quarter despite supply chain issues and on-going geopolitical situation. Revenues improved 15% YoY despite some deferment of revenues from Q3 to Q4 due to supply chain issues which has been recovered in the current quarter. Gross margins were higher by 200 bps while margins were lower due to higher freight cost in December month (a pass through) due to Red sea crisis. Lower operating profit led to PAT decline by 26%. Due to this supply chain issue there was an increase in inventory of ~₹200 mn (at cost) over March'23 levels, which when translated into revenue would have been ~₹450-500 mn. As per the management, adjusted for the inventory impact sales of the consumables segment in Q3FY24 would have been ~₹3.35 bn with EBIDTA margin of ~22% and for 9MFY24 sales would be ~₹8.90 bn with EBIDTA margin of ~21%.

However, management reiterated its revenue guidance at ~15% YoY for FY24 for both the consumables and equipment business while it expect EBIDTA margin of ~20%-22% in FY24. Order book remains strong and stood at ₹6.7bn providing healthy visibility ahead. Management indicated that it continues to gain market share in the mill liner segment from global players. On the expansion front company has received most of the regulatory approvals for the expansion at Chile, while few approvals are expected anytime. It expects to start construction work from April 2024 and expects plant to start commercial production from Q1FY26. Integration of Tega McNally is going as per expectation of the management and the entire process is expected to get completed in 24 months. We maintain our positive stance on Tega on a) higher penetration opportunity for Dynaprime liners, to deliver 25-30% CAGR over FY23-25E, b) cross selling opportunities of other products and equipment (Tega MCNally Mineral) to aid in outpacing the industry growth, c) green field expansion in Chile to increase growth opportunity in LATAM and d) sustainable EBITDA margins at 21-22% due to operating leverage. Considering the strong 9MFY24 performance we are tweaking our estimates and also introduce FY26 estimates. Hence, we maintain BUY with a revised TP of ₹1,335.

Q3FY24 Result Summary

Net sales for Q3FY24 were at ₹3.4bn (+14.6% YoY) wherein consumables revenues were at ₹2.9bn YoY while equipment revenues stood at ₹562 mn. Gross margins were higher by 200 bps while margins were lower due to higher freight cost in December month (a pass through) due to Red sea crisis. In 9mfy24 EBIDTA margin in Consumables segment at ~21% and Equipment business was at ~11%. Lower operating profit led to PAT decline by 26% at ₹348mn. Tega Mcnally Minerals Ltd reported revenue of ~₹1.45 bn in 9MFY24 with EBIDTA of ~₹150 mn.

| Key Financials | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------|-------|--------|--------|--------|--------|
| Total Sales (₹ mn) | 9,518 | 12,140 | 15,908 | 18,160 | 21,214 |
| EBITDA Margins (%) | 19.2 | 22.3 | 20.6 | 22.4 | 23.7 |
| PAT Margins (%) | 12.3 | 15.2 | 13.3 | 15.2 | 16.6 |
| EPS (₹) | 19.7 | 27.1 | 31.0 | 40.3 | 51.4 |
| P/E (x) | 61.0 | 44.4 | 38.8 | 29.8 | 23.4 |
| P/BV (x) | 4.2 | 3.0 | 2.5 | 2.1 | 1.7 |
| EV/EBITDA (x) | 44.5 | 30.4 | 24.7 | 19.6 | 15.6 |
| RoE (%) | 17.3 | 20.6 | 18.4 | 20.1 | 21.1 |
| RoCE (%) | 19.0 | 21.1 | 20.9 | 23.2 | 25.0 |

| | |
|--------------------------|-------|
| Rating | BUY |
| Current Market Price (₹) | 1,203 |
| 12M Price Target (₹) | 1,335 |
| Potential upside (%) | 11 |

Stock Data

| | |
|--------------------------------------|----------------------|
| Sector : | Industrial Equipment |
| FV (₹) : | 10 |
| Total Market Cap (₹ bn) : | 80 |
| Free Float Market Cap (₹ bn) : | 20 |
| 52-Week High / Low (₹) | 1,225 / 604 |
| 12M Avg. Dly Traded Volume (in lakh) | 1.34 |
| BSE Code / NSE Symbol | 543413 / TEGA |
| Bloomberg : | TEGA IN |

Shareholding Pattern

| (%) | Dec-23 | Sep-23 | Jun-23 | Mar-23 |
|-----------|--------|--------|--------|--------|
| Promoter | 74.88 | 74.88 | 74.99 | 79.10 |
| FPIs | 1.48 | 1.83 | 2.50 | 2.42 |
| MFs | 15.00 | 14.61 | 14.17 | 11.96 |
| Insurance | 2.99 | 2.57 | 2.18 | - |
| Others | 5.65 | 6.11 | 6.16 | 6.52 |

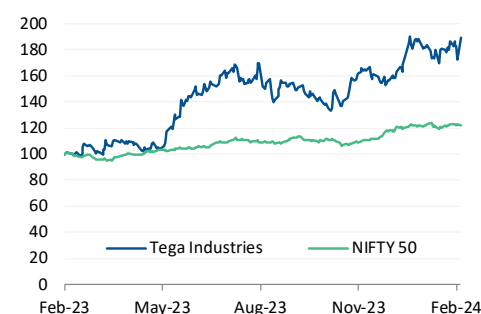
Source: BSE

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------|-------|-------|-------|-------|
| Tega | 3.3% | 16.2% | 11.5% | 89.3% |
| Nifty 50 | -1.3% | 10.7% | 11.3% | 21.6% |

* To date / current date : February 12, 2024

Tega vs Nifty 50



On the capex front Company plans to spend total capex of ~\$30 mn in Chile and other plants by 2025 to enhance manufacturing capacity of which ~\$20 mn will be spent on a greenfield expansion in Chile which will be funded with a combination of debt and internal accruals. Chile plant is expected to start commercial production by Q1FY26 and expect to fully utilise the expanded capacity by FY30. Expect to achieve a revenue of ~\$75-80 mn at peak utilisation from Chile.

Outlook and Valuation

We maintain our positive stance on Tega on a) higher penetration opportunity for Dynaprime liners, to deliver 25-30% CAGR over FY23-25E, b) cross selling opportunities of other products and equipment (Tega McNally Mineral) to aid in outpacing the industry growth, c) green field expansion in Chile to increase growth opportunity in LATAM and d) sustainable EBITDA margins at 21-22% due to operating leverage. Considering the strong 9MFY24 performance we are tweaking our estimates and also introduce FY26 estimates. The stock touched its yearly high today and has appreciated over 2.5x since our coverage initiation. We re-iterate BUY with a revised price target of ₹1,335.

Concall Highlights

- Revenue guidance maintained at ~15% YoY for FY24- Management has maintained its earlier guidance of revenue growth of ~15% YoY for both the consumables and equipment business.
- Consolidated order book stood at ~₹6.73 bn at the end of Q3FY24. Order execution period for consumable segment is ~4-5 months (except for some long term contracts) and for equipment business in ~8-9 months.
- In August 2023, Company won an order of ~₹6.85 bn from the largest copper mine in Europe. Company has started work from 1st January 2024 and it has been a good start. Billing for this order will be done on a monthly basis.
- Integration of Tega McNally is progressing as per the expectation of the management
- Company has received most of the regulatory approvals for the expansion at Chile, while few approvals are expected anytime. Expect to start construction work from April 2024 and expects plant to start commercial production from Q1FY26
- Current capacity utilization across locations is ~60%-65%.
- Company R&D team is working on number of new products and is in the process of filing patents for these products
- Some of the new products manufactured by the company is now into commercial testing phase at various customers for which early response is good. Testing will happen for ~3-6 months post it will be ready for commercial sales.
- Capacity utilization at 65% across the plant.
- Reiterated guidance at 15% revenue CAGR growth and maintain blended EBITDA at 22%.

Key Risks:

- Inability to comply with quality standards may adversely impact operations.
- Cancellations in orders or inability to forecast demand may impact operations.
- Adverse movement in currency may impact revenues and margins.

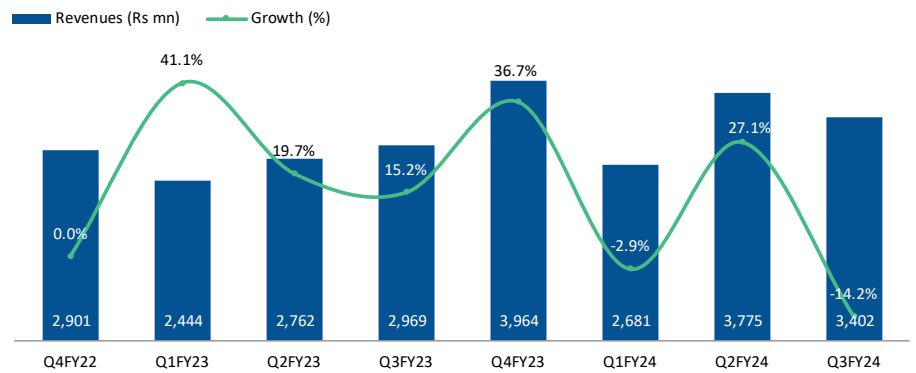
Quarterly performance

| (₹ mn) | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) |
|--------------------------|--------------|--------------|---------------|--------------|--------------|
| Sales | 3,402 | 2,969 | 14.6 | 3,775 | -9.9 |
| Raw Material | 1,460 | 1,341 | 8.9 | 1,604 | -9 |
| <i>% of Sales</i> | 42.9 | 45.2 | - | 42.5 | - |
| Employee Cost | 583 | 395 | 47.6 | 560 | 4.2 |
| <i>% of Sales</i> | 17.1 | 13.3 | - | 14.8 | - |
| Other Exp | 797 | 560 | 42.5 | 794 | 0.4 |
| <i>% of Sales</i> | 23.4 | 18.8 | - | 21 | - |
| Total Exp | 2,841 | 2,296 | 23.7 | 2,958 | -3.9 |
| EBITDA | 561 | 673 | -16.7 | 817 | -31.4 |
| EBITDA Margin (%) | 16.5 | 22.7 | -617.8 | 21.6 | |
| Other Income | 65 | 106 | -38.2 | 33 | 95.2 |
| Interest | 75 | 51 | 47.8 | 89 | -15.8 |
| Depreciation | 140 | 104 | 34.8 | 138 | 1.1 |
| Exceptional Items | - | - | - | - | - |
| PBT | 411 | 624 | -34.1 | 623 | -34 |
| Tax | 64 | 152 | -57.9 | 160 | -60.2 |
| <i>Tax rate (%)</i> | 15.5 | 24.3 | - | 25.7 | - |
| Adjusted PAT | 348 | 473 | -26.5 | 463 | -24.8 |
| Exceptional Items | - | - | - | - | - |
| Reported PAT | 356 | 484 | -26.5 | 474 | -24.8 |

Source: Company, LKP Research

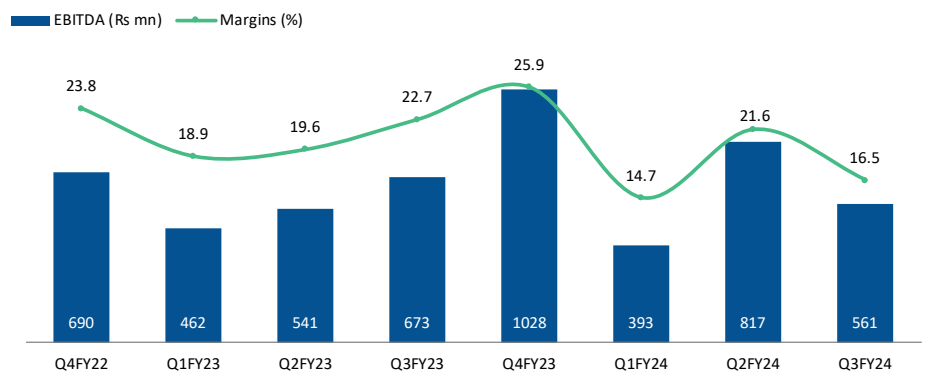
Financials in charts

Revenue trend



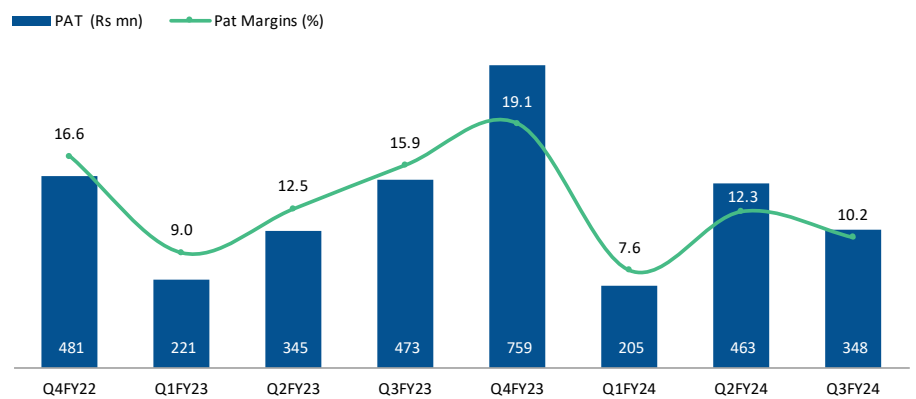
Source: Company, LKP Research

EBITDA and margin trend



Source: Company, LKP Research

Net profit and profit margin trend



Source: Company, LKP Research

Profit and Loss Statement - Consolidated

| (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|--------------|--------------|---------------|---------------|---------------|
| Total Income | 9,518 | 12,140 | 15,908 | 18,160 | 21,214 |
| Raw material Cost | 4,026 | 5,276 | 6,650 | 7,555 | 8,804 |
| Employee Cost | 1,434 | 1,627 | 2,211 | 2,452 | 2,715 |
| Other expenses | 2,229 | 2,532 | 3,770 | 4,086 | 4,667 |
| Total operating Expenses | 7,689 | 9,436 | 12,631 | 14,092 | 16,186 |
| EBITDA | 1,828 | 2,704 | 3,277 | 4,068 | 5,028 |
| EBITDA Margins(%) | 19.2 | 22.3 | 20.6 | 22.4 | 23.7 |
| Depreciation & Amortisation | 387 | 412 | 490 | 526 | 591 |
| EBIT | 1,441 | 2,292 | 2,787 | 3,541 | 4,436 |
| Interest | 162 | 181 | 324 | 285 | 242 |
| Other Income | 242 | 207 | 262 | 263 | 296 |
| Recurring PBT | 1,521 | 2,318 | 2,725 | 3,519 | 4,490 |
| Add: Extraordinaries | - | - | - | - | - |
| PBT | 1,521 | 2,318 | 2,725 | 3,519 | 4,490 |
| Less: Taxes | 381 | 521 | 668 | 845 | 1,078 |
| Adjusted Net Income | 1,169 | 1,840 | 2,115 | 2,753 | 3,519 |

Balance Sheet

| (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|--|--------------|---------------|---------------|---------------|---------------|
| Assets | | | | | |
| Total Current Assets | 6,591 | 8,527 | 11,956 | 13,965 | 16,957 |
| of which cash & cash eqv. | 402 | 493 | 1,475 | 2,022 | 3,031 |
| Total Current Liabilities & Provisions | 2,334 | 2,864 | 3,546 | 3,990 | 4,593 |
| Net Current Assets | 4,258 | 5,663 | 8,409 | 9,974 | 12,364 |
| Investments | 2,026 | 2,205 | 2,315 | 2,431 | 2,552 |
| Net Fixed Assets | 2,983 | 5,482 | 4,081 | 4,555 | 4,963 |
| Capital Work-in-Progress | 102 | 120 | 120 | 120 | 120 |
| Goodwill | | | | | |
| Total Assets | 9,368 | 13,470 | 14,926 | 17,080 | 20,000 |
| Liabilities | | | | | |
| Borrowings | 2,149 | 3,095 | 2,595 | 2,195 | 1,795 |
| Deferred Tax Liability | (142) | (115) | (115) | (115) | (115) |
| Minority Interest | - | - | - | - | - |
| Equity Share Capital | 663 | 664 | 664 | 664 | 664 |
| Face Value per share (₹) | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Reserves & Surplus | 6,697 | 9,826 | 11,783 | 14,337 | 17,657 |
| Net Worth | 7,361 | 10,490 | 12,446 | 15,000 | 18,320 |
| Total Liabilities | 9,368 | 13,470 | 14,926 | 17,080 | 20,000 |

Key Ratios

| (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------------|--------|-------|-------|-------|-------|
| Per Share Data (₹) | | | | | |
| AEPS | 19.7 | 27.1 | 31.0 | 40.3 | 51.4 |
| CEPS | 23.0 | 33.3 | 38.4 | 48.2 | 60.4 |
| BVPS | 111.0 | 158.1 | 187.6 | 226.1 | 276.2 |
| DPS | - | 2.0 | 2.0 | 2.5 | 2.5 |
| Growth Ratios (%) | | | | | |
| Total Revenues | 18.2 | 27.6 | 31.0 | 14.2 | 16.8 |
| EBITDA | (2.5) | 47.9 | 21.2 | 24.1 | 23.6 |
| PAT | (14.3) | 57.4 | 14.9 | 30.2 | 27.8 |
| AEPS | (14.3) | 57.4 | 14.9 | 30.2 | 27.8 |
| CEPS | (12.1) | 44.6 | 15.3 | 25.7 | 25.1 |
| Valuation Ratios | | | | | |
| P/E | 61.0 | 44.4 | 38.8 | 29.8 | 23.4 |
| P/CEPS | 20.5 | 14.1 | 12.3 | 9.8 | 7.8 |
| P/BV | 4.2 | 3.0 | 2.5 | 2.1 | 1.7 |
| EV / EBITDA | 44.5 | 30.4 | 24.7 | 19.6 | 15.6 |
| EV / Sales | 8.6 | 6.8 | 5.1 | 4.4 | 3.7 |
| Operating Ratio | | | | | |
| Raw Material/Sales (%) | 42.4 | 43.6 | 41.5 | 41.3 | 41.2 |
| Other exp/Sales (%) | 23.4 | 20.9 | 23.7 | 22.5 | 22.0 |
| Effective Tax Rate (%) | 25.0 | 25.4 | 24.5 | 24.0 | 24.0 |
| NWC / Total Assets (%) | 41.2 | 38.4 | 46.5 | 46.6 | 46.7 |
| Inventory Turnover (days) | 96.7 | 87.1 | 87.0 | 87.0 | 87.0 |
| Receivables (days) | 106.0 | 121.2 | 121.0 | 121.0 | 121.0 |
| Payables (days) | 29.2 | 32.1 | 30.0 | 30.0 | 30.0 |
| D/E Ratio (x) | 0.3 | 0.3 | 0.2 | 0.1 | 0.1 |
| Return/Profitability Ratio (%) | | | | | |
| RoCE | 19.0 | 21.1 | 20.9 | 23.2 | 25.0 |
| RoNW | 17.3 | 20.6 | 18.4 | 20.1 | 21.1 |
| Dividend Payout Ratio | 0.0 | 7.4 | 6.5 | 6.2 | 4.9 |
| Dividend Yield | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| PAT Margins | 12.3 | 15.2 | 13.3 | 15.2 | 16.6 |
| EBITDA Margins | 19.2 | 22.3 | 20.6 | 22.4 | 23.7 |

Cash Flow Statement

| (₹ mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|---------|---------|---------|---------|---------|
| PBT | 1,550 | 2,361 | 2,725 | 3,519 | 4,490 |
| Depreciation | 387 | 412 | 490 | 526 | 591 |
| Chng in working capital | (1,464) | (748) | (1,764) | (1,018) | (1,381) |
| Cash flow from operations (a) | 137 | 1,786 | 1,107 | 2,468 | 2,866 |
| Capital expenditure | (480) | (1,519) | (500) | (1,000) | (1,000) |
| Free cash flow | (343) | 267 | 607 | 1,468 | 1,866 |
| Chng in investments | 80 | (1,454) | (110) | (116) | (122) |
| Other investing activities | (336) | (884) | (500) | (1,000) | (1,000) |
| Cash flow from investing (b) | (256) | (2,338) | (610) | (1,116) | (1,122) |
| Dividend paid (incl. tax) | - | - | (159) | (199) | (199) |
| Interest paid | (108) | (165) | (324) | (285) | (242) |
| Others | 138 | (218) | (355) | (355) | (355) |
| Cash flow from financing (c) | 31 | 630 | (838) | (839) | (796) |
| Net chng in cash (a+b+c) | (88) | 78 | (342) | 513 | 948 |
| Closing cash & cash equivalents | 395 | 457 | 110 | 619 | 1,561 |

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