

TEGA INDUSTRIES LIMITED

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Tega Industries reported decent results although the topline was marred by congestion at the port thereby impacting revenues. The outlook ahead remains positive given better visibility and pipeline of work along with healthy orderbook. Net sales for Q1FY24 were at ₹2.7bn (+9.7% YoY) wherein Non Mill Liner grew at 34% and Mill liner revenues saw small de-growth due to congestion on the port (temporary one off condition due to cyclone alerts) leading to ₹200 mn impact on the mill lining revenues. Gross margins have almost remained flat YoY while EBITDA margins contracted by 421bps to 14.1% on lower sales impacted from port congestion and one time professional expenses of ₹40mn on account of the McNally Sayaji acquisition integration into the main stream. Lower operating leverage led to PAT de-growth of 7.4% YoY for Q1FY24. Management reiterated that in medium term sales growth is expected to be 15% CAGR across both segments, while margins in consumable business have further room to expand as pass through of higher RM costs is still underway and expect blended EBITDA margins to be in 21-22% range.

Further management highlighted that its wholly owned subsidiary has recently executed Supply and Maintenance agreement for the largest copper mine in Europe wherein it will be responsible for a) supplying, installing and managing both mill and non-mill products for the mineral processing plant of the mine b) Duration is 5 years extendable by another year w.e.f from Jan 2024 c) Customers expected to spend 6.85 bn providing healthy revenue visibility ahead. On the McNally acquisition, management reiterated that it remains a right fit for Tega as it was looking at an acquisition in the equipment space, considering the opportunity where global players do designing and get manufacturing done from smaller players. Tega does both designing and manufacturing, thus making it a perfect fit for the company. On the expansion front, Chile project is progressing well and land acquisition process completed and waiting for statutory approvals and expected to commence the plant by Q1FY25 subject to statutory approvals to be received on time i.e by Q3FY24. 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 (McNally Sayaji acquisition) 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. We maintain BUY with a revised TP of ₹1,236.

Key Financials	FY21	FY22	FY23	FY24E	FY25E
Total Sales (₹ mn)	8,055	9,518	12,140	14,378	17,803
EBITDA Margins (%)	23.3	19.2	22.3	23.6	24.1
PAT Margins (%)	16.9	12.3	15.2	15.3	15.9
EPS (₹)	24.1	19.7	27.1	32.4	41.4
P/E (x)	44.8	54.8	39.8	33.4	25.3
P/BV (x)	5.1	4.2	3.0	2.5	2.1
EV/EBITDA (x)	38.8	40.1	27.4	21.4	16.8
RoE (%)	22.2	17.3	20.6	19.1	20.4
RoCE (%)	26.4	19.0	21.1	21.2	23.8

Rating	BUY
Current Market Price (₹)	1,079
12M Price Target (₹)	1,236
Potential upside (%)	15

Stock Data

Sector :	Industrial Equipment
FV (₹) :	10
Total Market Cap (₹ bn) :	72
Free Float Market Cap (₹ bn) :	15
52-Week High / Low (₹)	1,110 / 467
12M Avg. Dly Traded Volume (in lakh)	1.08
BSE Code / NSE Symbol	543413 / TEGA
Bloomberg :	TEGA IN

Shareholding Pattern

(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	74.99	79.10	79.17	79.17
FPIs	2.50	2.42	2.46	2.48
MFs	14.17	11.96	11.63	10.91
Insurance	2.18	-	-	-
Others	6.16	6.52	6.74	7.44

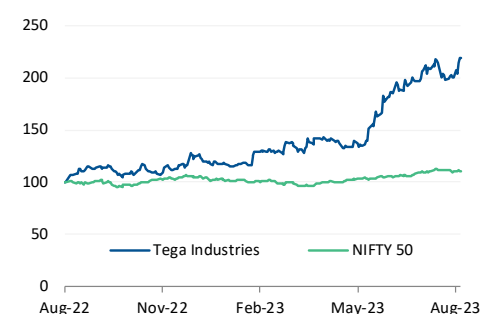
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Tega	7.2%	62.9%	68.6%	119.1%
Nifty 50	-0.1%	6.2%	8.8%	10.0%

* To date / current date : August 11, 2023

Tega vs Nifty 50



Q1 FY24 Result Summary

Net sales for Q1FY24 were at ₹2.7bn (+9.7% YoY) wherein Non Mill Liner grew at 34% and Mill liner revenues saw small de-growth due to congestion on the port (temporary one off condition due to cyclone alerts) leading to ₹200 mn impact on the mill lining revenues. Gross margins have almost remained flat YoY while EBITDA margins contracted by 421bps to 14.1% on lower sales impacted from port congestion and one time professional expenses of ₹40mn on account of the McNally Sayaji acquisition integration into the main stream. Lower operating leverage led to PAT de-growth of 7.4% YoY for Q1FY24. Management reiterated that in medium term sales growth is expected to be 15% CAGR across both segments, while margins in consumable business have further room to expand as pass through of higher RM costs is still underway and expect blended EBITDA margins to be in 21-22% range. Order book for the company stands at ₹5,200 mn

Exhibit 1: Quarterly performance

(₹ mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Sales	2,681	2,444	9.7	3,964	-32.4
Raw Material	1,111	1,009	10	1,759	-36.9
% of Sales	41.4	41.3	-	44.4	-
Employee Cost	489	385	26.9	422	15.9
% of Sales	18.3	15.8	-	10.7	-
Other Exp	688	588	17	754	-8.9
% of Sales	25.6	24	-	19	-
Total Exp	2,287	1,983	15.4	2,936	-22.1
EBITDA	393	462	-14.8	1,028	-61.7
EBITDA Margin (%)	14.7	18.9	-421.6	25.9	-
Other Income	81	-33	-348.1	66	22.4
Interest	82	50	64.5	32	156.5
Depreciation	135	91	48.1	121	12.3
Exceptional Items	-	-	-	-	-
PBT	258	288	-10.5	942	-72.7
Tax	53	67	-21.6	183	-71.2
Tax rate (%)	-	23.4	-	-	-
Adjusted PAT	205	221	-7.1	759	-73
Exceptional Items	-	-	-	-	-
Reported PAT	214	230	-7.4	773	-72.3
PAT Margin (%)	8	9.4	-	19.5	-
EPS (₹)	3.2	3.5	-7.4	11.7	-72.4

Source: Company, LKP Research

Key Risks:

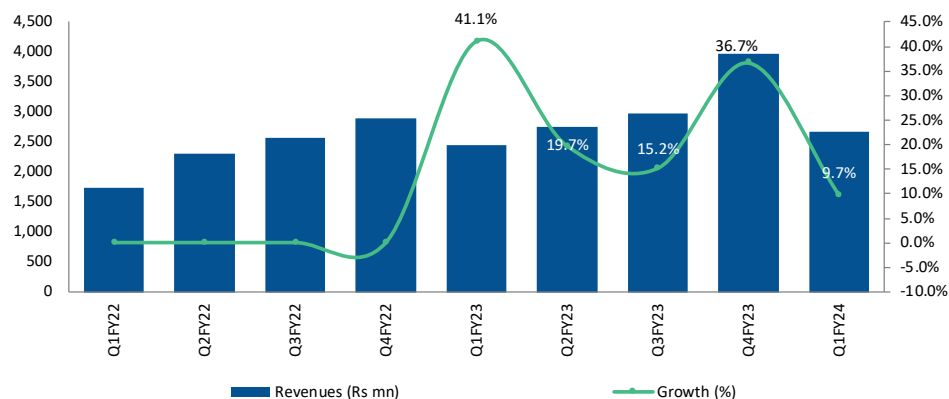
- Inability to comply with quality standards may adversely impact operations
- Cancellations in orders or inability to forecast demand may impact operations,
- Adverse movement in currency may impact revenues and margins.

Tega Concall Highlights

- Recent acquisition of McNally Sayaji has enriched Tega and also opened new opportunities. The integration of McNally has boosted its global market reach and helped manage large projects with increased capacity.
- Expansion in Chile is progressing smoothly and land acquisition is complete and regulatory approval is awaited.
- Wholly owned subsidiary has recently executed Supply and Maintenance agreement for the largest copper mine in Europe.
 - Will be responsible for supplying, installing and managing both mill and non-mill products for the mineral processing plant of the mine.
 - Duration is 5 years extendable by another year w.e.f from Jan 2024.
 - Customers expected to spend 6.85 mn.
 - Supply innovative solutions and service .
- OB-Earlier in Q4FY23 was at ₹4,800mn which is now at ₹5,200 mn (+8% QoQ); Execution time table for OB is 6-6.5 months.
- Sustainable margins of 20-22% on the consumables and McNally would be 12-13% margins.
- Chile commencement of the plant is expected by Q1FY25 on the condition that regulatory approval is received by Q3FY24.
- Capacity utilization at 65% across the plant.
- Reiterated guidance at 15% revenue CAGR growth and maintain blended EBITDA at 22%.
- Demand cycle to remain upward since Coper demand growing at ~3% and gold at ~1.5% due to its usability in different sectors.
- Volume de growth of 10% excluding equipment on shipment issues.
- No major capex happened in Q1FY24.
- Inventory too has gone up to that extent due to shipment issues.
- Working capital days have improved due to receivables improvement.

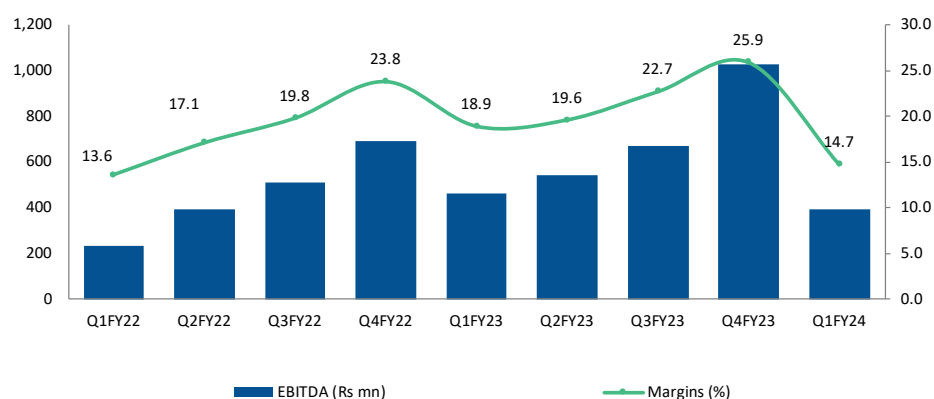
Financials in charts

Exhibit 2: Revenue trend



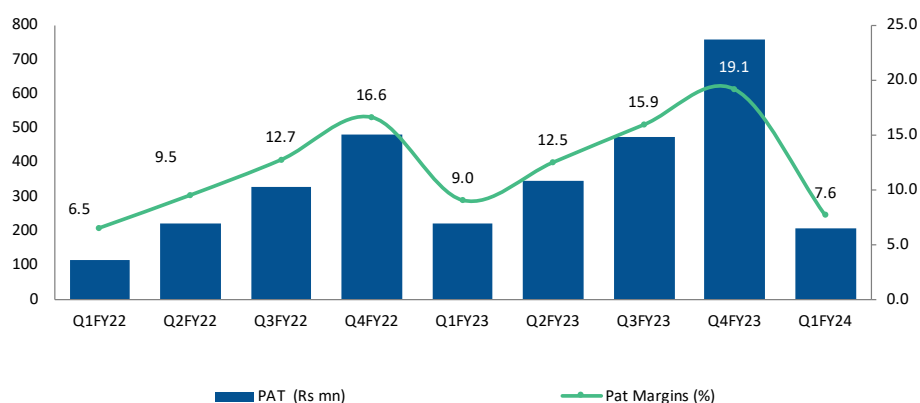
Source: Company data, LKP Research

Exhibit 3: EBITDA and margin trend



Source: Company data, LKP Research

Exhibit 4: Net profit and profit margin trend



Source: Company data, LKP Research

Exhibit 5: Profit and Loss Statement - Consolidated

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Total Income	8055.2	9517.6	12139.7	14378.1	17802.8
Raw material Cost	3238	4026	5276	5924	7281
Employee Cost	1227	1434	1627	2013	2492
Other expenses	1716	2229	2532	3048	3739
Total operating Expenses	6181	7689	9436	10985	13512
EBITDA	1875	1828	2704	3393	4290
EBITDA Margins(%)	23.3	19.2	22.3	23.6	24.1
Depreciation & Amortisation	402	387	412	513	561
EBIT	1473	1441	2292	2880	3730
Interest	173	162	181	272	252
Other Income	512	242	207	228	202
Recurring PBT	1812	1521	2318	2835	3679
Add: Extraordinaries	0	0	0	0	0
PBT	1812	1521	2318	2835	3679
Less: Taxes	475	381	521	689	931
Adjusted Net Income	1364	1169	1840	2204	2827

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Assets					
Total Current Assets	4,884	6,591	8,527	10,967	13,315
of which cash & cash eqv.	484	402	493	1,480	1,605
Total Current Liabilities & Provisions	2,296	2,334	2,864	3,244	3,920
Net Current Assets	2,588	4,258	5,663	7,722	9,395
Investments	2,051	2,026	2,205	2,315	2,431
Net Fixed Assets	2,923	2,983	5,482	4,858	5,297
Capital Work-in-Progress	69	102	120	120	120
Goodwill	-	-	-	-	-
Total Assets	7,631	9,368	13,470	15,015	17,243
Liabilities					
Borrowings	1,663	2,149	3,095	2,595	2,195
Deferred Tax Liability	(169)	(142)	(115)	(115)	(115)
Minority Interest	-	-	-	-	-
Equity Share Capital	663	663	664	664	664
Face Value per share (₹)	10.0	10.0	10.0	10.0	10.0
Reserves & Surplus	5,474	6,697	9,826	11,872	14,500
Net Worth	6,137	7,361	10,490	12,535	15,164
Total Liabilities	7,631	9,368	13,470	15,015	17,243

Exhibit 7: Cash Flow Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY24E
PBT	1,839	1,550	2,361	2,835	3,679
Depreciation	402	387	412	513	561
Chng in working capital	(385)	(1,464)	(748)	(1,073)	(1,548)
Cash flow from operations (a)	1,702	137	1,786	1,859	2,013
Capital expenditure	(710)	(480)	(1,519)	(1,300)	(1,000)
Free cash flow	992	(343)	267	559	1,013
Chng in investments	(318)	80	(1,454)	(110)	(116)
Other investing activities	(479)	(336)	(884)	(1,300)	(1,000)
Cash flow from investing (b)	(797)	(256)	(2,338)	(1,410)	(1,116)
Dividend paid (incl. tax)	-	-	-	(159)	(199)
Interest paid	(137)	(108)	(165)	(272)	(252)
Others	(653)	138	(218)	(355)	(355)
Cash flow from financing (c)	(790)	31	630	(787)	(806)
Net chng in cash (a+b+c)	115	(88)	78	(337)	91
Closing cash & cash equivalents	479	395	457	115	201

Exhibit 8: Key Ratios

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share Data (in ₹)					
AEPS	24.1	19.7	27.1	32.4	42.6
CEPS	26.2	23.0	33.3	40.1	49.9
BVPS	92.5	111.0	158.1	189.0	228.6
DPS	-	-	2.0	2.0	2.5
Growth Ratios (%)					
Total Revenues	17.6	18.2	27.6	18.4	23.8
EBITDA	73.8	(2.5)	47.9	25.5	26.4
PAT	108.2	(14.3)	57.4	19.8	28.2
AEPS	108.2	(14.3)	57.4	19.8	28.2
CEPS	70.3	(12.1)	44.6	20.4	24.4
Valuation Ratios					
P/E	44.8	54.8	39.8	33.4	25.3
P/CEPS	18.0	20.5	14.1	11.7	9.4
P/BV	5.1	4.2	3.0	2.5	2.1
EV / EBITDA	38.8	40.1	27.4	21.4	16.8
EV / Sales	9.0	7.7	6.1	5.1	4.1
Operating Ratio					
Raw Material/Sales (%)	40.7	42.4	43.6	40.9	40.6
Other exp/Sales (%)	21.3	23.4	20.9	21.2	21.0
Effective Tax Rate (%)	26.2	25.0	25.4	24.3	25.3
NWC / Total Assets (%)	27.6	41.2	38.4	41.6	45.2
Inventory Turnover (days)	71.9	96.7	87.1	87.0	87.0
Receivables (days)	100.1	106.0	121.2	121.0	121.0
Payables (days)	33.5	29.2	32.1	30.0	30.0
D/E Ratio (x)	0.3	0.3	0.3	0.2	0.1
Return/Profitability Ratio (%)					
RoCE	26.4	19.0	21.1	21.2	23.8
RoNW	22.2	17.3	20.6	19.1	20.4
Dividend Payout Ratio	0.0	0.0	7.4	6.2	5.9
Dividend Yield	0.0	0.0	0.9	0.9	1.1
PAT Margins	16.9	12.3	15.2	15.3	15.9
EBITDA Margins	23.3	19.2	22.3	23.6	24.1

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