



SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

### Issue Highlights

Industry	Miscellaneous
Offer for sale (Shares)	13,669,478
<b>Net Offer to the Public</b>	<b>13,669,478</b>
Issue Size (Rs. Cr.)	605-620
Price Band (Rs.)	443-453
Offer Date	1-Dec-21
Close Date	3-Dec-21
Face Value	10
Lot Size	33

### Issue Composition

	In shares
Total Issue for Sale	13,669,478
QIB	6,834,739
NIB	2,050,422
Retail	4,784,317

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	85.17%	79.17%
QIB	14.83%	10.52%
NIB	0.00%	3.09%
Retail	0.00%	7.22%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

The objects of the offer are to achieve the benefits of listing the equity shares on the stock exchanges.

### Book Running Lead Manager

- Axis Capital Limited
- JM Financial Limited

### Name of the registrar

- Link Intime India Private Limited

### About the company

Established in 1976, Tega Industries is a leading manufacturer and distributor of specialized, critical, and recurring consumable products for the global mineral beneficiation, mining, and bulk solids handling industry. The company offers a wide product portfolio of specialized abrasion and wear-resistant rubber, polyurethane, steel, and ceramic-based lining components used by its customers across different stages of mining and mineral processing, screening, grinding, and material handling. The company's product portfolio comprises more than 55 mineral processing and material handling products. The company has 6 manufacturing sites, including 3 in India, at Dahej in Gujarat, and at Samali and Kalyani in West Bengal, and 3 sites in major mining hubs of Chile, South Africa, and Australia, with a total built-up area of 74255 Sq. mts. In the last three Fiscals, the company has a presence in 513, 498, and 479 installation sites in over 70 countries. Majority of the company's revenue (86.42% in 2021) comes from operations outside India. The company has 18 global and 14 domestic sales offices located close to its key customers and mining sites. Tega Industries are further expanding their operations in major markets including North America, South America, Australia, and South Africa.

### Strength

**A leading producer of specialized and "critical to operate" products, with high barriers to replacement or substitution:** Globally, The company is the second largest producers of polymer-based mill liners in terms of revenues as of June 30, 2021, in a near oligopolistic market structure. (Source: F&S Report). It is present across the value chain of a mineral processing site, providing a wide range of products and solutions for processing across different stages of mineral processing. The company products are critical to the overall productivity of a mineral processing site. They are a relatively low cost component in a unit's operations, however, they play a critical role in determining a unit's productivity, in terms of throughput, lower grinding media consumption, lower energy consumption and lower downtime, leading to lower operating costs for our customers. Downtime can be expensive for its customers at the mining sites, which leads to substantial losses to them

**Insulated from mining capex cycles, as its products cater to after-market spends, providing recurring revenues:** The company products cater to the after-market spend of a mining processing unit. After-market spend is typically three times of the upfront capex spend over the lifecycle of a mill, and is a recurring cost for miners. After-market spend for a mining processing unit comprises regular operating expenses which include costs of wear and separation parts, grinding media, power consumption, liners and other regular operating expenses. As a result, 76.28%, 74.29%, 75.43% and 79.72% of its sale of products and services in three months period ended June 30, 2021 and last three Fiscals 2021, 2020 and 2019 resulted from repeat orders of spares. Its focus end-customers are mineral processing sites involved in gold and copper ore beneficiation accounting for 34.92% and 27.25% respectively, of its revenue from sale of products. As an average of the last three Fiscals and 45.48% and 20.76% respectively of its sale of products for the three months period ended June 30, 2021. Gold and copper mill sites require superior quality of consumables and have higher beneficiation requirements. Across copper mines, ore grades have declined by around less than 1% per ton over the last few years. Similarly, ore grades have also depleted in the gold mines over the last few years, which has led to disproportionate industry growth of around 5-7% for mining and mineral processing equipment at each customer site. Also, decreasing ore grades has led to a greater demand for larger-sized equipment, leading to an overall growth of 17% of the mill lining industry in

Fiscal 2021 (Source: F&S Report). Despite some volatility in capital expenditure cycles for gold and copper mining sites, its business was not impacted, as a majority of its products were linked to the operating expenditure budget of a mining site and not capital expenditure.

**High value add and technology intensive products, backed by strong R&D and focus on quality control:** The company's in-house R&D and manufacturing capabilities, including design, process engineering and manufacturing facilities, allow it to turn around customized designs in a short time frame, offer comprehensive solutions and better service standards and cross sell multiple products to its customers. The company designs and customizes its products uniquely for each customer site, taking into account multiple characteristics of the application including type of ore, ore size, tonnage, breakage rate, power or rotational speed, pH, temperature, humidity, size, distribution and trajectory, sound levels, health and safety standards. Its continuous design innovation makes its products highly engineered "built-to-suit" rather than "off-the-shelf", with its products being unique for each customer site taking into account multiple characteristics of its application. The company has a track record of developing and commercializing a diverse and innovative product portfolio of 55 mineral processing and material handling products over the years, including DynaPrime launched by them in 2018. This product is targeted towards large mineral processing units which historically or conventionally had relied on traditionally used steel liners. DynaPrime has unlocked a new addressable market for them. As of June 30, 2021, the order book for DynaPrime includes 28 target sites.

**Long standing market player with marquee global customer base and strong global manufacturing and sales capabilities:** Tega commenced operations with a foreign collaboration with Skega AB, Sweden in 1978. Over time, it has diversified its capabilities by expanding its product portfolio and augmenting its technical capabilities. Starting from one manufacturing facility in 1978, the company has now grown to operate 6 manufacturing facilities across the globe. Tega has a track-record of servicing leading global mining companies for a long period of time and in several cases, its relationships with key customers span more than 10 years, leading to high repeat revenues for them. Moreover, its deep relationships with some of the world's largest senior miners and a robust order book of Rs. 316.14 crore as of June 30, 2021 allow it significant visibility to plan for future growth. The company sales and distribution network is also in-house, with 18 overseas and 14 domestic sales offices strategically located in all the key geographies close to key customers, supported by 155 member dedicated sales and servicing team with ability to assist pre sales and after sales services and in select geographies by commission agents from time to time. Tega markets its products primarily through the "plant audit" route.

**Consistent growth, characterized by operational efficiency and high repeat business:** The company's strong market position and entry barriers help it to maintain high margins over time. Its business is capital efficient, with sale of products being 4.57 times of the property, plant and equipment (sale of products divided by net carrying value of property plant and equipment) for the Fiscal 2021 and ROCE of 24.76% for Fiscal 2021. Further, the company has successfully maintained this operational efficiency while completing and integrating acquisitions, joint ventures and strategic alliances, including their acquisitions in Chile, South Africa and Australia.

## Strategies

**Gain market share and customer wallet share across high growth markets:** The company is currently the second largest producer of polymer-based mill liners in the world, on the basis of revenues for calendar year 2020. The client acquisition period of the company has significantly reduced in new markets, especially in the U.S.A., Chile, Peru and Mexico. It plans to leverage its insights from these market entries to continue its expansion into other markets. The company also intends to leverage its strong product development, design, engineering and manufacturing capabilities along with its customer relationships to grow its share of customer wallets and improve its market penetration by cross-selling within its existing customer base. It also aims to strengthen its

relationships with its existing customers by continuing its focus on high quality products and solutions which have recurring demand, leading to high repeat revenues.

**Leverage in-house R&D capabilities to grow the product offerings and capitalize on future trends:** The Company plans to continue expanding its R&D capabilities in order to capture future growth trends. Its inhouse R&D team comprising 36 personnel focuses on upgrading its existing products, developing product variants such as locking ceramic liner and thin flexible ceramic liner; development of new products such as Combi liner and wear resistant liners; and developing cutting edge new technologies, using its customised softwares for structural analysis, flow analysis, 3D modelling and product selection.

**Expand the manufacturing capabilities to achieve better economies of scale:** In order to enhance its existing capabilities, Tega plans to expand its manufacturing capacity and capabilities, both in India and overseas. Further, evaluating the growth trajectory in South America (which contribute 40% of the global copper production and 8% of the global gold production output), and to extend their access to and penetration with customers across Chile, Peru and Bolivia, it plans to set up a new manufacturing facility in Chile. In addition, the company plans to expand into life cycle management for its customers, with focus on capital equipment having high requirement of bespoke critical spares and services offered by it to increase its customer’s production efficiency and deliver sustained performance improvements.

**Explore opportunities for inorganic growth:** Tega intends to continue to actively pursue acquisitive opportunities and strategic alliances with targets that are complementary to its business. The company has a track record of successfully completing and integrating acquisitions and benefiting from its participation in joint ventures and strategic alliances. The company seeks to leverage its free cash flows to selectively evaluate complementary targets for strategic acquisitions, and continue exploring synergies that may arise from strategic alliances, partnerships or initiatives.

**Operational efficiencies and margin expansion:** Tega intends to continue enhancing its operational efficiencies, to increase economies of scale, better absorb their fixed costs, reduce their other operating costs and strengthen its competitive position. The company has, in the past and intends to in the future, continue using a variety of other manufacturing strategies and cost reduction strategies to continue to improve its operational efficiencies.

### Risk factors

- In the last 3 years, over 85% of its total revenues come from foreign countries.
- The company is dependent on 3rd party logistic and support service providers for the delivery of raw materials and finished products.
- The company is dependent on a few key suppliers of certain raw materials and do not have long term contracts with these suppliers.

### Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
AIA Engineering*	3138.89	579.80	61.16	30.35	3.94	470.80	2.00	1856.05	17506.33
Tega Industries Ltd**	805.52	136.41	20.58	22.02	4.76	95.21	10.00	453.00	3003.08

\* TTM Financials

\*\*FY21

### Valuation

Considering the P/E valuation on the upper price band of Rs.453, EPS and P/E of FY2021 are Rs.20.58 and 22.02 multiple respectively and at a lower price band of Rs. 443, P/E multiple is 21.53. Looking at the P/B ratio on the upper price band of Rs.453, book value and P/B of FY21 are Rs. 95.21 and 4.76multiple respectively and at a lower price band of Rs. 443 P/B multiple is 4.65. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

### Industry overview

The Indian GDP contribution of the mining and quarrying sector, both in terms of nominal and real GDP, has declined over the last decade. In regards to nominal GDP, as can be seen from the chart below, the share of mining and quarrying declined from 2.13% in 2015–2016 to 1.75% by 2019–2020; the goal of the government is to raise the share from 1.75% to 2.50% (The Hindu; Financial Express; India Today). A timeline for this 2.5% commitment, however, is not clear, with 2024–2025 assumed as the timeline, in line with the government’s 2024–2025 vision of becoming a \$5 trillion economy. The 2021 approval of the Mines and Minerals (Development and Regulation) Amendment Bill should help pave the way for increased domestic production and curtailed imports, increased private sector participation, and higher mining employment. The bill, for example, facilitates the reallocation of mining blocks facing legacy cases through means of auctions. Another reform is in regard to captive mines for which end use was previously restricted to the mine leaseholder. The provision now opens up the sale of 50% of the mineral production to the open market, with 50% of the production to be used in the company plant.

### Outlook

The company is the leading manufacturer and distributor of specialized, critical and recurring consumable products for mineral beneficiation, mining and bulk solids industry. Its strategy is to gain market share and customer wallet across high growth markets, expand its manufacturing capabilities to achieve better economies of scale and work on operational efficiencies and margin expansion. However, the issue is OFS; the amount that will be raised through the IPO will not go to the company. A long term investor may opt the issue.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Dec 01, 2021
Bid/Offer Closing Date	Dec 03, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Dec 08, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Dec 09, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about Dec 10, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Dec 30, 2021

## Consolidated Financials

### Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	30-Jun-21 (3 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
Revenue from operations	173.21	805.52	684.85
Total expenditure	149.71	618.04	578.31
<b>Operating Profit</b>	<b>23.50</b>	<b>187.48</b>	<b>106.53</b>
OPM%	13.57	23.27	15.56
Other Income	6.18	51.16	10.70
<b>PBDIT</b>	<b>29.68</b>	<b>238.64</b>	<b>117.23</b>
Depreciation	10.5	40.18	38.355
<b>PBIT</b>	<b>19.18</b>	<b>198.46</b>	<b>78.87</b>
Interest	3.613	17.278	21.439
<b>PBT</b>	<b>15.57</b>	<b>181.18</b>	<b>57.43</b>
Share of restated net profit of joint venture accounted for using the equity method	0.616	2.678	1.809
<b>Restated profit before tax</b>	<b>16.18</b>	<b>183.86</b>	<b>59.24</b>
Tax	4.301	47.457	-6.261
<b>Profit After Tax</b>	<b>11.88</b>	<b>136.41</b>	<b>65.50</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-21	As on 31-Mar-21	As on 31-Mar-20
<b>Non-current assets</b>			
Property, plant and equipment	169.31	169.20	169.15
Right-of-Use Assets	60.75	59.10	40.59
Capital work-in-progress	7.10	6.86	6.22
Investment property	4.06	3.85	3.30
Goodwill	63.39	63.28	52.36
Other intangible assets	1.81	0.71	0.53
Intangible assets under development	0.00	0.00	2.39
Investments accounted for using the equity method	27.53	26.92	24.47
<b>Financial Assets</b>			
Investments	0.00	18.19	16.66
Other financial assets	10.04	10.30	12.73
Non-current tax assets (net)	10.54	10.18	7.98
Deferred tax assets (net)	26.97	25.63	30.78
Other non-current assets	2.43	1.41	0.89
<b>Total non-current assets</b>	<b>383.94</b>	<b>395.62</b>	<b>368.06</b>
<b>Current assets</b>			
Inventories	207.87	158.63	132.63
<b>Financial Assets</b>			
Investments	187.90	156.19	116.66
Trade receivables and contract assets	169.78	220.86	185.22
Cash and cash equivalents	64.58	47.87	36.86
Other bank balances	0.98	0.54	0.05
Other financial assets	5.21	4.23	3.10
Current tax assets (net)	0.73	1.55	3.05
Other current assets	35.20	32.84	41.68
<b>Total current assets</b>	<b>672.23</b>	<b>622.72</b>	<b>519.26</b>
<b>Total Assets</b>	<b>1056.17</b>	<b>1018.34</b>	<b>887.32</b>
<b>Non-current liabilities</b>			
<b>Financial liabilities</b>			
Borrowings	81.69	86.21	95.11
Lease Liabilities	26.19	23.78	24.79
Other financial liabilities	8.27	8.92	13.31
Deferred tax liabilities (net)	7.48	8.76	6.74
<b>Total financial liabilities</b>	<b>123.62</b>	<b>127.68</b>	<b>139.95</b>
<b>Current liabilities</b>			
<b>Financial liabilities</b>			
Borrowings	102.55	101.59	148.83
Lease liabilities	7.56	8.09	9.28
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	3.83	4.22	3.20
Total outstanding dues of creditors other than micro enterprises and small enterprises	113.62	94.49	62.10
Other financial liabilities	12.23	12.64	15.62
Provisions	16.94	14.64	10.87
Provisions	10.98	9.65	1.54
Other current liabilities	33.69	31.62	33.45
<b>Total current liabilities</b>	<b>301.40</b>	<b>276.94</b>	<b>284.88</b>
<b>Total</b>	<b>425.02</b>	<b>404.62</b>	<b>424.83</b>
<b>NET Worth</b>	<b>631.15</b>	<b>613.72</b>	<b>462.49</b>
Net worth represented by:			
Share capital	57.60	57.60	57.60
Preference share capita	8.69	8.69	8.69
Other Equity	564.86	547.43	396.20
<b>Net Worth</b>	<b>631.15</b>	<b>613.72</b>	<b>462.49</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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