

Tega Industries Limited

SSIS IPO GRADE 4.75/5 (Great Fundamentals)

29th November, 2021

Rating Overview

Having commenced its operation in 1978, Tega Industries is a leading manufacturer of 'critical to operate' and recurring consumable products and is the 2nd largest producers globally of polymer-based mill liners based on revenues. These products have application in global mineral beneficiation, mining and bulk solids handling industries and are not linked to capex as they cater to the aftermarket spend of a mining processing unit.

Its focus end customer industries are mineral processing sites involved in gold and copper ore beneficiation which combined averaged ~62% (34.92% and 27.25% respectively) of revenues from products over FY19-21. Company has six manufacturing sites of which, three are in India and one each in major mining hubs - Chile, South Africa, and Australia. ~86% its revenue was derived from operation outside of India.

Tega Industries has placed itself as a leading producer of specialized and "critical to operate" products, with high barriers to replacement or substitution. The company earnings are insulated from mining capex cycles, as products cater to after-market spends, providing recurring revenues. Its consistent growth characterized by operational efficiency & high repeat business. The diverse global presence with strong manufacturing & sales capabilities also adds to its desirability in the sector.

The good comes with the bad. On the downside we have an inorganic growth fuelled by acquired companies' accounts for substantial portion of the overall revenues. This also exposes it to various risk associated with global operations and currency fluctuations. These losses by international subsidiaries have impacted performance in the past. Their operations are working capital intensive in nature.

Tega has posted revenue CAGR of ~13% over FY19-21 while the PAT CAGR of 104% was aided by ~800 bps margin expansion and `28 Cr forex gains in FY21. The operations in an oligopolistic industry where the switching of suppliers is negligible given the impact of downtimes for end users. Factors like higher demand for copper and decline in ore yields are positives for the industry.

Our overall rating of Tega Industries is fundamentally strong given its high valuation; fair ask price, and a great long term opportunity in the sector.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.



Company Overview

Tega Industries Ltd. (TIL) is a leading manufacturer and distributor of specialized 'critical to operating' and recurring consumable products for the global mineral beneficiation, mining and bulk solids handling industry, on the basis of sales as of June 30, 2021 (Source: F&S Report). Globally, it is the second-largest producer of polymer-based mill liners, on the basis of revenues as of June 30, 2021 (Source: F&S Report).

The company offers comprehensive solutions to marquee global clients in the mineral beneficiation, mining and bulk solids handling industry, through a wide product portfolio of specialized abrasion and wear-resistant rubber, polyurethane, steel and ceramic based lining components, used by customers across different stages of mining and mineral processing, screening, grinding and material handling, including after-market spends on wear, spare parts, grinding media and power, which are regular operating expenses for its customers.

TIL's engineering capability, which has evolved over decades, has enabled it to consistently offer quality, complex manufactured products within stipulated timelines, allowing it to reduce downtime and maximize operational efficiency for customers, and forge robust relationships with them leading to high recurring revenues.

TIL's products offering includes consumables required in the mines and mineral processing industry. In the sequence of their usage in the mineral processing value chain, after blasting to floatation, its products include chutes and its liners, grinding mill liners, trommels and screens, hydrocyclones, pumps and flotation parts and conveyor products. Its product range is engineered with a combination of mineral processing engineering, mechanical engineering and material sciences while utilising TIL's expertise in tribology.

TIL has around 25% domestic sales and the rest is coming from exports. Historically its first half generates around 40% of annual turnover and the second half 60%. The management is confident of maintaining the trends expressed for the last three fiscals going forward. The turnover consists of 25% new orders and the rest from repeat orders, thus it enjoys good markets among its customers for consumable products of TIL.

Fundamental Overview

On the financial performance front, for the last three fiscals, TIL has (on a consolidated basis) posted total turnover/net profits of Rs. 643.01 cr. / Rs. 32.67 cr. (FY19), Rs. 695.54 cr. / Rs. 65.50 cr. (FY20) and Rs. 856.68 cr. / Rs. 136.41 cr. (FY21). For the first quarter of FY22 ended on June 30, 2021, it has earned a net profit of Rs. 11.88 cr. on a turnover of Rs. 179.39 cr.

For the last three fiscals, TIL has posted an average EPS of Rs. 14.34 (fully diluted) and an average RoNW of 17.19%. The issue is priced at a P.BV of 4.19 based on its NAV of Rs. 108.06 as of June 30, 2021. As of June 30, 2021, its paid-up equity capital of Rs. 66.29 cr. is supported by free reserves of Rs. 564.86 cr. Based on FY21 earnings, while the asking price is at a P/E of 22.01, on annualised FY22 earnings, the asking price is at a P/E of 63.18. On the basis of the last three fiscals average EPS, the asking price stands at a P/E of 31.59. Based on all other parameters, the issue appears fully priced.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Millions)			
	30-Jun-21	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	10,561.72	10,183.39	8,873.15	7,902.68
Total Revenue	1,793.86	8,566.84	6,955.42	6,430.13
Profit After Tax	118.82	1,364.05	655.04	326.70

Issue Details

To provide an exit to some of its stakeholders and for listing benefits, TIL is coming out with a maiden IPO of equity shares of Rs. 10 each via book building process with its secondary offer. The company is issuing 13669478 equity shares of Rs. 10 each in a price band of Rs. 443 - Rs. 453 per share to mobilize Rs. 619.23 cr. at the upper cap. The minimum application to be made is for 33 shares and in multiples thereon, thereafter. The issue opens for subscription on December 01, 2021, and will close on December 03, 2021. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 20.62% of the post issue paid-up capital of the company. The company has allocated 50% for QIBs, 15% for HNIs and 35% for the Retail investors. The two joint Book Running Lead Managers (BRLMs) to this offer are Axis Capital Ltd. and JM Financial Ltd. while Link Intime India Pvt. Ltd. is the registrar to the issue.

Having issued initial equity at par, the company raised further equity in the price range of Rs. 20.50 to Rs. 65.00 per share between September 1990 and November 2021. It has also issued bonus shares in the ratio of 12 for 1 in October 2013. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. 0.02, Rs. 0.34, Rs. 0.53, Rs. 1.26 and Rs. 170.25 per share.

This IPO being pure OFS, TIL's current paid-up equity capital of Rs. 66.29 cr. will remain the same post issue. (66293149 shares). Based on the upper cap of the issue price, the company is looking for a market cap of Rs. 3003.08 cr.

Application Dates	Dec 1, 2021 – Dec 3, 2021
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹443 to ₹453 per equity share
Market Lot	33 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹619.23 Cr)

Issue Timeline

Basis of Allotment Date	Dec 8, 2021
Initiation of Refunds	Dec 9, 2021
Credit of Shares to Demat Account	Dec 10, 2021
IPO Listing Date	Dec 13, 2021

Investment Strategy

While the company has posted growth for the last three fiscals, Q1 for FY22 does not match in ratio to FY21 performance. However, according to management it's a traditional aspect and are confident of maintaining the tempo of growth going forward. On average financial parameters and Q1-FY22 numbers issue appears fully priced. Considering the growth prospects, niche places enjoyed by the company in global markets, investors may consider investing in this offer from a medium to long term perspective.