

23th February 2024

Tega Industries – BUY

CMP : Rs. 1,249.0
Target Price : Rs. 1,596.0
Upside : 28%+
Stop Loss : Rs. 1,160.0 (Closing basis)

Investment Thesis

- New Subsidiary:** Tega Industries Ltd. (Tega) has established a subsidiary in Peru, presenting significant business opportunities in mining. Additionally, another wholly-owned subsidiary entered into an agreement for the largest copper mine in Europe, managing wear product assets for a period of five years, estimated at approximately Rs.685 crores. Tega will start generating bills from January 2024 onwards.
- Strong Order Book:** Tega reported a strong order book at a group level of Rs. 673 crores as of December '23, reflecting a 40% YoY increase during the nine months ending December '23. Order book is expected to grow at faster pace because from next year onward, Tega will start witnessing more traction in copper mines. Couple of other mines are coming into on-stream. These factors will also increase production as well as demand for Tega products.
- Growth:** Despite challenges in Q3FY24, Tega expresses confidence in achieving projected revenue growth on YoY basis. Tega is working on increasing market share across all territories, focusing on both mill and non-mill products. Tega maintains the guidance for a 15% revenue growth and an EBITDA margin of 20%-22% for the full year.
- Structural changes and strategic initiatives:** McNally Sayaji's (MSEL) integration with Tega is progressing as per expectations so far. For the 9 months ending December '23, Tega McNally has recorded a revenue of Rs. 145 crores with an EBITDA of Rs. 15 crores. It may be noted that for FY23 Tega McNally had recorded a revenue of Rs. 183 crores with an adjusted EBITDA of Rs. 10 crores. The two entities want to generate value through their synergy, which includes renaming the subsidiary as Tega McNally Minerals Limited.
- Global Expansion and New Facility:** After the acquisition of MSEL, now Tega McNally Minerals Ltd. (TMML), marks a significant expansion beyond consumables. This positions Tega as a comprehensive solution provider in the global mineral beneficiation industry, potentially opening up new revenue streams and growth opportunities.

Financials

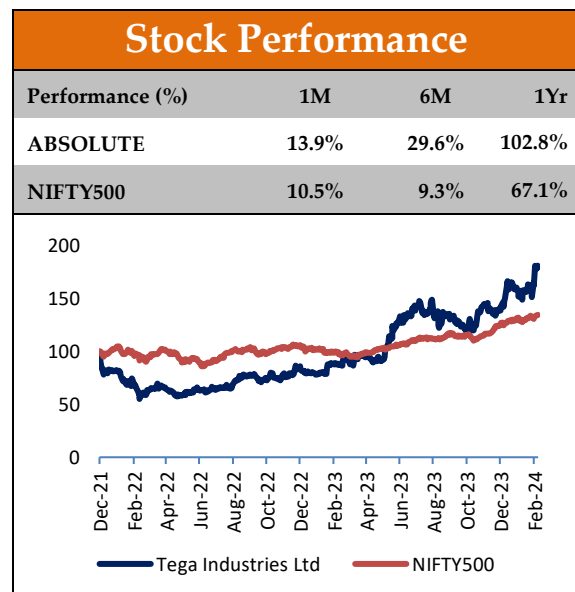
- Tega Industries has demonstrated positive revenue growth of 21% on YoY basis, at consolidated revenues of Rs.985 crores for 9MFY24.

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs. Crs)	805.52	951.76	1,213.97	1,396.07	1,675.28
EBITDA* (Rs. Crs)	188.79	183.99	270.55	293.17	368.56
PAT * (Rs. Crs)	136.41	116.90	184.03	175.90	235.88
EPS (Rs.)	20.48	17.58	27.67	26.45	35.47
P/E (x)	66.11	77.02	48.93	51.19	38.17

Stock Data	
Market Cap (Rs. Crs)	8,330
Market Cap (\$ Mn)	1,004
Shares O/S (in Cr)	6.65
Avg. Volume (3 month)	1,42,800
52-Week Range (Rs.)	1,380/ 604

Shareholding Pattern	
Promoter	74.88%
FII's	1.48%
Institutions	18.33%
Public	5.31%

Key Ratios	
Div Yield (%)	0.15
TTM PE (x)	47.7
ROE (%)	20.7
TTM EPS (Rs.)	27.35/-



- In Q3 of FY24, Tega reported consolidated revenues of Rs. 340 crores with an EBITDA of Rs. 56 crores which declined by (16.7%) on YoY basis. However, the performance was impacted by supply chain challenges arising from the Red Sea crisis and delays in conversion orders.
- Tega has maintained EBITDA margin of 18% in 9MFY24 which is guided by management to be in range of 20-22% for FY24.

Key Business Highlights

- 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. Globally, Tega industries is the second largest producers of polymer-based mill liners.
- The Red Sea crisis and geopolitical tensions in West Asia led to shipment delays and higher freight costs in the second half of December '23, contributing to inventory buildup. Freight rates increased at the end of December, but the impact was minimal as the increased rates were passed on to customers.
- Tega Industries has completed groundwork for the Chile project, received most regulatory approvals. The project is expected to commence by April 2024.
- Tega Smart products are in the testing phase, commercial introduction pending after successful testing. Which is expected to be introduced in upcoming quarters.
- 75% of liner requirement comes from copper and gold mining. Anticipating continued dominance of copper and gold in Tega's revenue. In FY25 management is expecting higher demand of copper in market because of green energy and EV, which will improve mining activities and boost overall revenue.

Valuation

The outlook for Tega remains positive because of the following: a) Robust equipment (McNally) cross-selling potential; b) The planned Chile factory that will access LATAM markets; and c) The potential for growth in the DynaPrime lines.

We recommend Tega with a BUY rating which is currently trading at attractive P/E of 45.8x which is similar to the industrial P/E of 46.8x and connoting a Target Price of Rs. 1,596 (45x PE multiple on FY25E EPS) and a potential upside of 28%.

Risk & Concern

- Decline in copper mining can impact overall mining and demand of Tega product.
- If Tega is unable to pass on the cost to customers, the growing red sea issue may have an effect on profitability.

Graphs & Charts

Figure 1: Revenue Trend

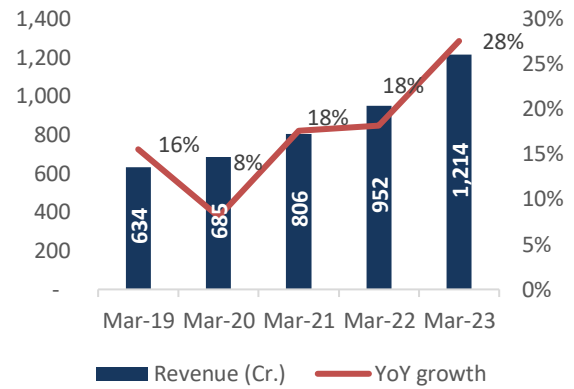


Figure 2: Robust EBITDA Margin

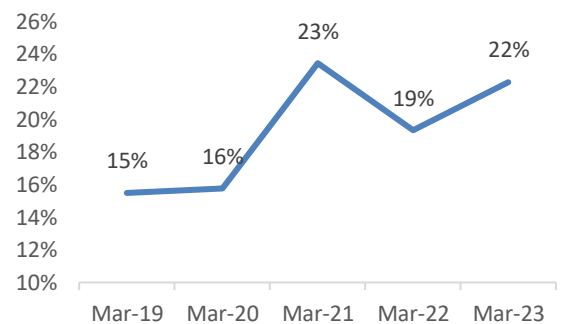


Figure 3: Improving Net Profit

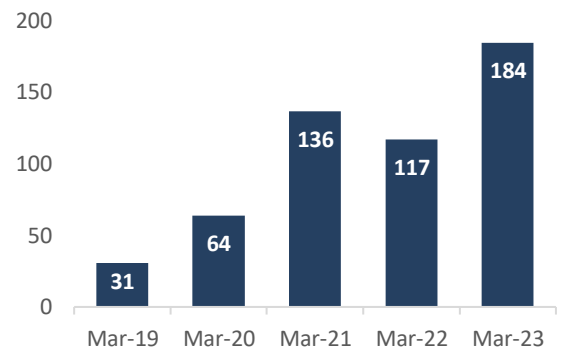
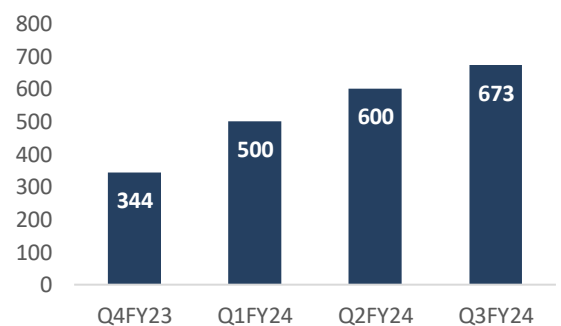


Figure 4: Increasing Order Book (Rs. Crs)



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