Tega Industries | BUY

New Product launches to drive incremental growth

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Tega Industries (Tega) is the 5th largest manufacturer of mill liner globally and the second largest manufacturer of polymer-based mill liner. Sector dynamics place Tega in a sweet spot due to a) long lead/conversion time, creating entry barriers, b) no dependency on mining capex (caters to consumable products), c) depleting ore grade and d) continued demand for metals such as copper and gold (75-80% of Tega's revenue is derived from these two metals). Sales of DynaPrime, launched as a replacement to metallic mill liner (USD 900mn-1,000mn market), is progressing as per the management's expectations. DynaPrime margins are currently at par with those of traditional mill liner as it is currently in the initial phase; however, with increasing adoption, it is likely to command better margins, thereby driving overall margins for the consumable segment. The acquisition of McNally Sayaji Engineering Ltd (MSEL) also paved the way for Tega to enter the global mining equipment market. Focus on operational efficiency, integration synergies kicking in, focus on cost reduction, and the increasing service business will likely drive margin expansion for the equipment business. Overall we expect revenue and earnings CAGR of 18.8%/25.6% over FY24-27E, factoring in c.16% revenue CAGR in the equipment business.

- **Continued focus on new product development:** Tega has been continuously working on new product development as well as smart & green products across product categories to capitalise on opportunities in mining and mineral processing industries. One off-the-key launch of Tega was "DynaPrime" in 2018, which opened up an additional TAM of USD 900mn (focus on converting metal mill liner) in addition to its existing USD 400mn rubber and PM liner market, driving additional revenue for the company; it is also likely to be the key growth driver for the consumable business, going forward. DynaPrime margins are still at par with traditional mill liner margins, but as demand for the product grows with increasing adoption, it is expected to command a premium.
- **Equipment margins to improve driven by focus on cost reduction and synergies kicking in:** Tega McNally Minerals Ltd. (erstwhile MSEL) reported EBITDA margin of 8.7% in FY24 vs. negative EBITDA margin of 13.4% in FY23 (Tega acquired MSEL in 4QFY23), mainly due to the management's focus on operation efficiency, integration synergies kicking in, and focus on cost reduction. The company is also focussing aggressively on the service business and increase its contribution in the equipment business. Going forward, we expect revenue CAGR of 16% over FY24-27E, with EBITDA margin of 10%-12.5% driven by implementation of cost-efficiency measures and increasing service revenue.
- **Maintain BUY with TP of INR 2,025:** We remain positive on the stock factoring in a) healthy penetration opportunity for DynaPrime lines, b) cross-selling opportunity for equipment, c) upcoming Chile plant to tap the LATAM markets and d) expansion in newer geographies. We expect revenue and earnings CAGR of 18.8%/25.6% over FY24-27E, factoring in 19% revenue CAGR in the consumable business and 16% revenue CAGR in the equipment business. We maintain BUY rating on stock with a TP of INR 2,025 based on 35x FY27E vs. its average PE of c.30x since its listing (Dec'21), factoring in increasing TAM for DynaPrime products, industry dynamics and depleting ore quality driving demand for mining consumables such as mill liner.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,025
Upside/(Downside)	39.1%
Previous Price Target	2,120
Change	-4.5%

Key Data – TEGA IN	
Current Market Price	INR1,456
Market cap (bn)	INR96.9/US$1.1
Free Float	25%
Shares in issue (mn)	66.3
Diluted share (mn)	66.5
3-mon avg daily val (mn)	INR92.5/US$1.1
52-week range	2,329/1,238
Sensex/Nifty	76,617/23,332
INR/US$	85.5

Price Performance

%	1M	6M	12M
Absolute	10.1	-26.3	10.1
Relative*	5.0	-20.6	6.2

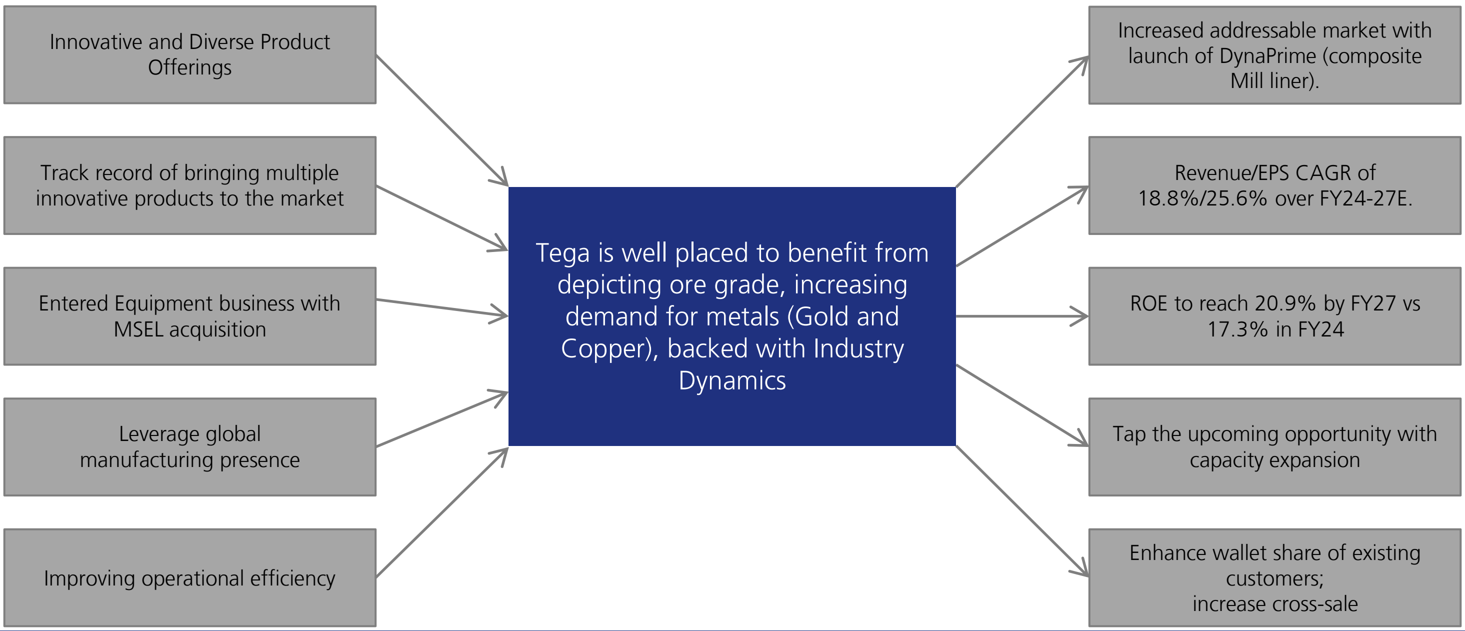
* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	12,140	14,927	17,099	20,622	25,010
Sales Growth (%)	27.6	23.0	14.5	20.6	21.3
EBITDA	2,705	3,160	3,480	4,423	5,458
EBITDA Margin (%)	22.3	21.2	20.4	21.4	21.8
Adjusted Net Profit	1,841	1,939	2,140	3,000	3,844
Diluted EPS (INR)	27.7	29.1	32.2	45.1	57.8
Diluted EPS Growth (%)	57.4	5.0	10.4	40.2	28.1
ROIC (%)	19.2	17.3	15.5	18.5	20.3
ROE (%)	20.6	17.3	16.6	19.7	20.9
P/E (x)	52.5	50.0	45.3	32.3	25.2
P/B (x)	9.2	8.1	7.0	5.8	4.8
EV/EBITDA (x)	35.8	30.3	27.4	21.4	17.3
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.3

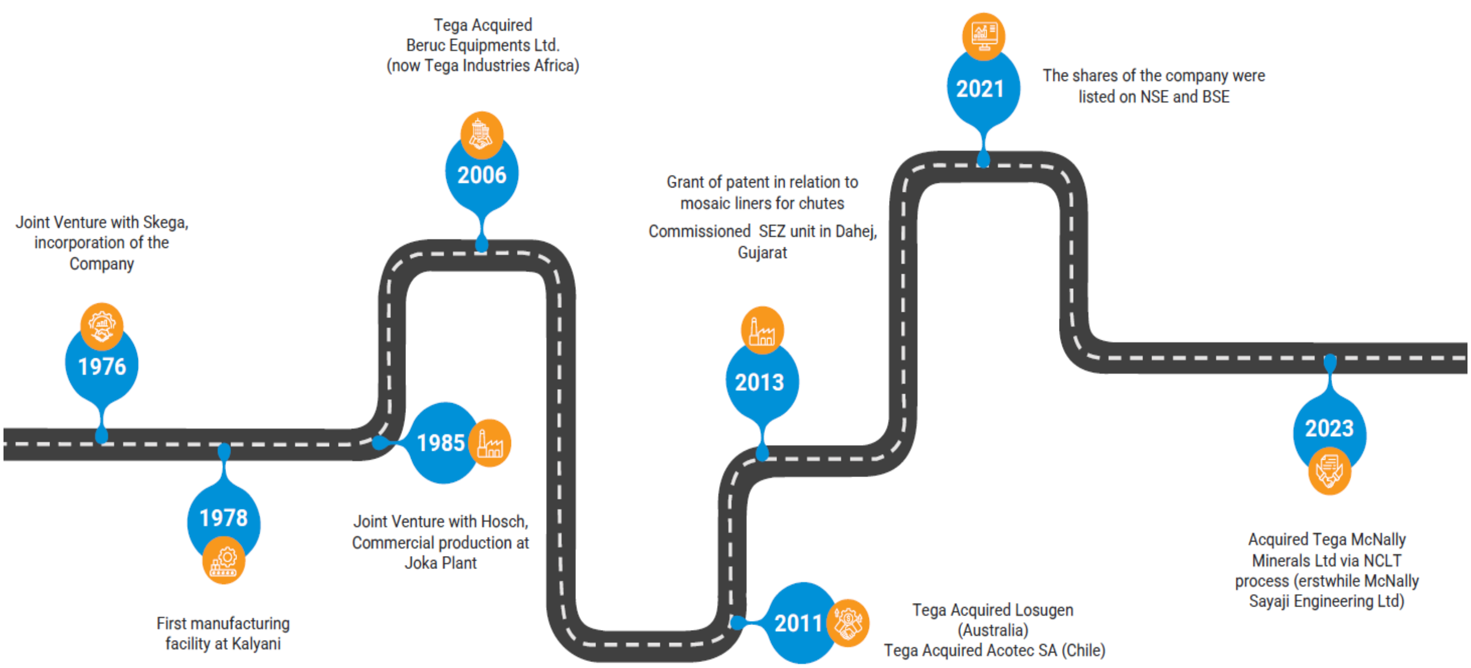
Source: Company data, JM Financial. Note: Valuations as of 02/Apr/2025

Exhibit 1. Tega growth story in a nutshell



Source: Company, JM Financial

Exhibit 2. Tega - timeline of evolution



Source: Company, JM Financial

One of the largest producers of "critical to operate" mill liner products

Tega is the fifth-largest player in the global mill liners industry and the second largest in the polymer-based liners sub-segment. The company offers mill lining solutions made from rubber, polyurethane, steel and ceramic. Tega's flagship mill liner products are DynaPrime, DynaPulp, DynaSteel, DynaWear and grinding mill devices.

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 products are critical to the overall productivity of a mineral processing site and are relatively low-cost components 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 mining companies. Further, switching decisions are not cost-driven due to the high cost of initial planning involved, the lead time required for approval, the degree of certainty of products of an established supplier, and relatively lower percentage cost of the components in the total operating costs of a mineral processing site. This also provides Tega flexibility to maintain high margins. Additionally, globally, the industry in which it operates has a limited number of established competitors.

Rising global demand for gold and copper, driven by increasing EV penetration, growing electronic demand, continued jewellery growth, and depleting ore quality will further boost demand for mining consumables like mill liner.

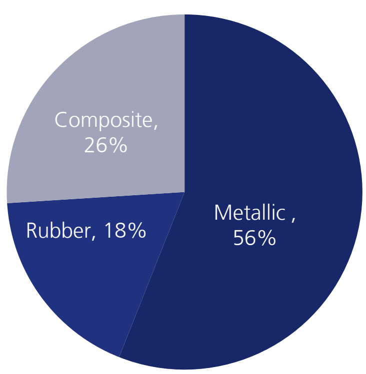
Exhibit 3. Competitors

Products	Competitors
Mill liners	Metso-Outotec, Mc Elecmetal, Bradken, FL Smidth, Wier and AIAE
Hydrocyclones	Wier, FL Smidth, Metso-Outotec, Schlumberger and Technip
Trommels and Screens	Multotec, Sandvik, FL Smidth and Metso-Outotec
Mineral processing equipment	Metso-Outotec, Trelleborg AB, FL Smidth and Wier

Source: Company, JM Financial

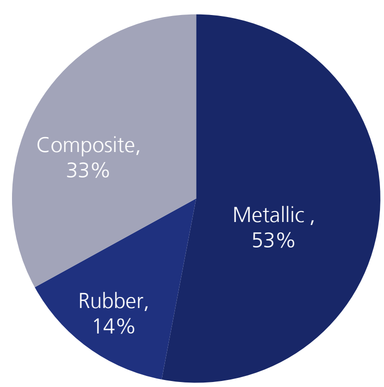
Mill liners play a critical role in the mineral processing industry. They are categorised into metal, rubber and composite mill liners. Of them, metal mill liners have the highest demand. Rubber mill liners are more lightweight and more energy efficient, and are preferred in secondary and tertiary operations.

Exhibit 4. Mill liner demand by type (%) 2020



Source: Company, JM Financial

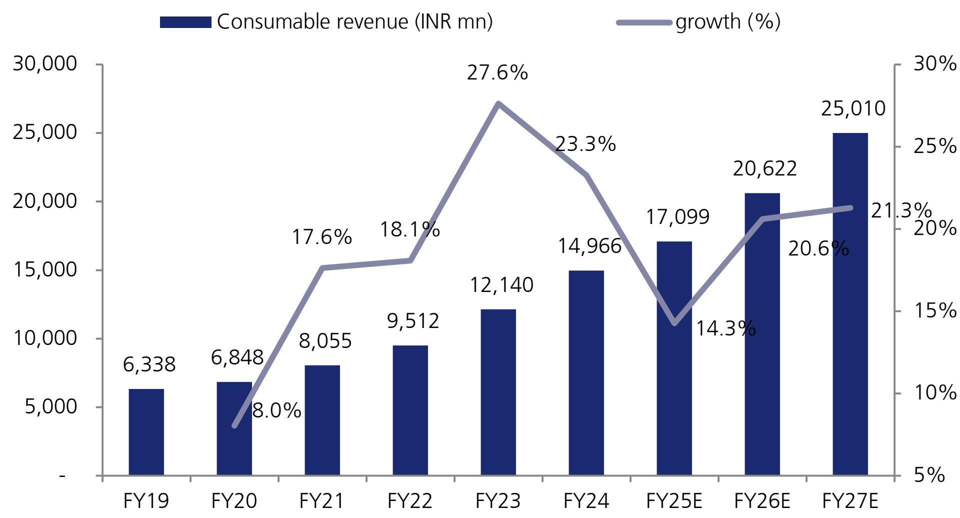
Exhibit 5. Mill liner demand by type (%) 2030



Source: Company, JM Financial

The consumable segment reported healthy revenue CAGR of 15.3% during FY19-24, driven by DynaPrime. Going forward, it is expected to report 19% CAGR over FY24-27E.

Exhibit 6. Consumable segment likely to report 19% CAGR over FY24-27E



Source: Company, JM Financial

Entry into equipment business through McNally acquisition

In 2023, Tega acquired McNally Sayaji Engineering Ltd (MSEL) through the CIRP process. McNally Sayaji Engineering offers solutions in the field of manufacturing and marketing of crushing, screening, grinding, material handling, and mineral processing equipment coupled with integrated customer support and aftersales service. Tega acquired MSEL for INR 1,650mn, funded by equity of INR 650mn and debt of INR 1,000mn.

The global market size for mineral processing equipment stands at USD 20bn, while the domestic market is INR 30bn-35bn. The advantages of this acquisition are: a) MSEL has strong brand recall among domestic mining companies like JSW Steel, Tata Steel, and HZL, b) distributed manufacturing across four locations (Kumardhubi, Vadodara, Bengaluru, Asansol) with more than 100 acres of land to enable quick scale-up and market share gains, and c) product portfolio extension via coal/ash handling products.

Currently, the company is focussing on the domestic market and will be stabilising/increasing the business in the domestic market atleast for the next 2 years and then might look to expand in exports market.

The company has longstanding relationships with old customers but it has been unable to retain market share. However, MSEL maintains a healthy data bank that can be utilised to improve products customer relationships and support.

Focus on services business: Currently, Tega McNally has c.600 equipment installed at various customer locations, but over the last few years when MSEL was not doing well it was not focusing on spares and service, so the customers developed another vendor base for spares. Now Tega is focusing in a big way on this segment. The immediate focus is to reach out to the customer to get the service business. Going forward, the company is encouraging customers to also purchase a 3-4 year AMC with every equipment sold. Going forward, the service business is expected to form a major part of the equipment business, thereby aiding the margin profile.

Exhibit 7. Tega McNally Financials

INR mn	Mar'20	Mar'21	Mar'22	Mar'23	Mar'24
Revenue	1,751.8	1,777.2	1,722.1	1,834.0	2,060.5
growth (%)	-28.0%	1.4%	-3.1%	6.5%	12.4%
EBITDA	-25	150	-109	-245	180
EBITDA Margin (%)	-1.4%	8.4%	-6.3%	-13.4%	8.7%
Adj. PAT	-65.1	65.7	-434.4	34.0	13.9
growth (%)	-82.8%	-200.9%	-761.2%	-107.8%	-59.2%

Source: Company, JM Financial

Exhibit 8. Tega McNally product offerings

CRUSHING EQUIPMENTS

Roll Crusher, Impactor, Hammer Mill, Ring Granulator, Jaw Crusher, Rotary Breaker, Lump Breaker, Aggregate Crushing Plant, Skid Mounted, Crushing Plant

FEEDING EQUIPMENT

Apron Feeder, Paddle Feeder, Vibratory Feeders, Reciprocating Feeder, Disc Feeder, Grizzly Feeder

THICKENERS

Scrubber , Vibrating Tube Mill High Rate Thickner, Clarifiers

SCREENING EQUIPMENT

Circular Motion Vibrating Screen, Linear Motion Vibrating Screen, HPA Screen, Roller Screen, Vibrating Grizzly Screening Feeder, Live Roll Grizzly, Banana Screen, Wet Screen

CENTRI FUGE

Solid Bowl Centrifuge, Coal Centrifuge

CENTRIFUGAL SLURRY PUMP

Scrubber, Vibrating Tube Mill High Rate Thickner, Clarifiers

GRINDING EQUIPMENT

Rod Mill, Ball Mill, Rotary Drum Scrubber, Vibrating Tube Mill

MATERIAL HANDLING EQUIPMENT

Travelling Tripper, Belt Conveyer & Components

PROCESS PLANT EQUIPMENT

Flotation Cell, Pressure Filters, Sand Washing Plant, Chemical Dosing System

Source: Company, JM Financial

Continuously working on product/technology/design to stay ahead of the curve

To meet the mining industry's focus on decarbonization & ESG targets, and address problems relating to depleting ore quality & energy consumption, Tega has been continuously working on new product development, as well as smart & green products across product categories to capitalise on opportunities in mining and mineral processing industries.

DynaPrime is one such product that is seen as a disruptor for the traditional metallic mill liner due to its distinctive benefits like lower energy consumption and lead time. It was launched in 2018 and has IP rights on design, restricting its competitor from copying the design.

Key benefits of DynaPrime

- Delivered significant reductions in specific energy consumption in milling operations (up to 5%) at different sites.
- Wear performance has increased to 50%, translating into reduced maintenance costs and also contributing to enhanced equipment reliability and productivity.
- Tega DynaPrime simplifies the installation process by using fewer and larger liner segments, reducing installation time and effort. This streamlined installation minimises scheduled downtime for maintenance and liner replacement.
- It helps quickly achieve full operational capacity when the equipment is run. This was successfully done at one customer site in Chile where the ramp-up period was reduced from original 26 days to 10 days after implementing DynaPrime solution into the mill.

Exhibit 9. Case Study: DynaPrime vs. conventional liner

Challenges Faced by Clients with Conventional Liner	Result to Client	Benefit to Client
Low Mill Availability: Frequent unplanned shutdown due to premature failure of conventional Liner (especially in shell discharge side), resulting in high maintenance cost and loss in productivity.	Wear life increased to183 Days from 100-120 days of competitor lining **(Wear Life increased by 50%-85%)**	Average increase in TPH by Tega DynaPrime Liner: 141.48 t/h, equivalent to increase in the total production by 4.3 %.
Low Wear Life - Around 100-120 days	Annual shutdown for replacement of liners changed to 2 from original 3. **(One shutdown saving in a year)**	Increase in 4.3% corresponds to extra ore processing of 1155 KT, equivalent to **annual profit increase of 14 MUSD (Cu Grade 0.64%)**
	No Premature Liner Failure. **(Mill Availability increased by 1%)**	Average reduction in SEC by Tega DynaPrime Liner: **0.2486 kWh/t, equivalent to 4.1% lower specific energy consumption**
	Annual **Production increase by 4.3%,** which means the **additional annual profit of approx. 14 Mn USD.**	Total 28 Mn Ton were treated annually, which means Tega DynaPrime resulted in **total ann. energy saving of 6,960 MWh that corresponds to a profit of 880 KUSD**
	Reduced opex: **Specific energy consumption reduced by 4.1%,** which means **additional annual profit of approx. 880,000 USD.**	Savings of 6960 MWh/year means **annual reduction in CO2 emission of 2,680 tons** (EF: 0.385 Kg of CO2 eq/kWh)
	Annual reduction in carbon emission: 2,680 Ton.	

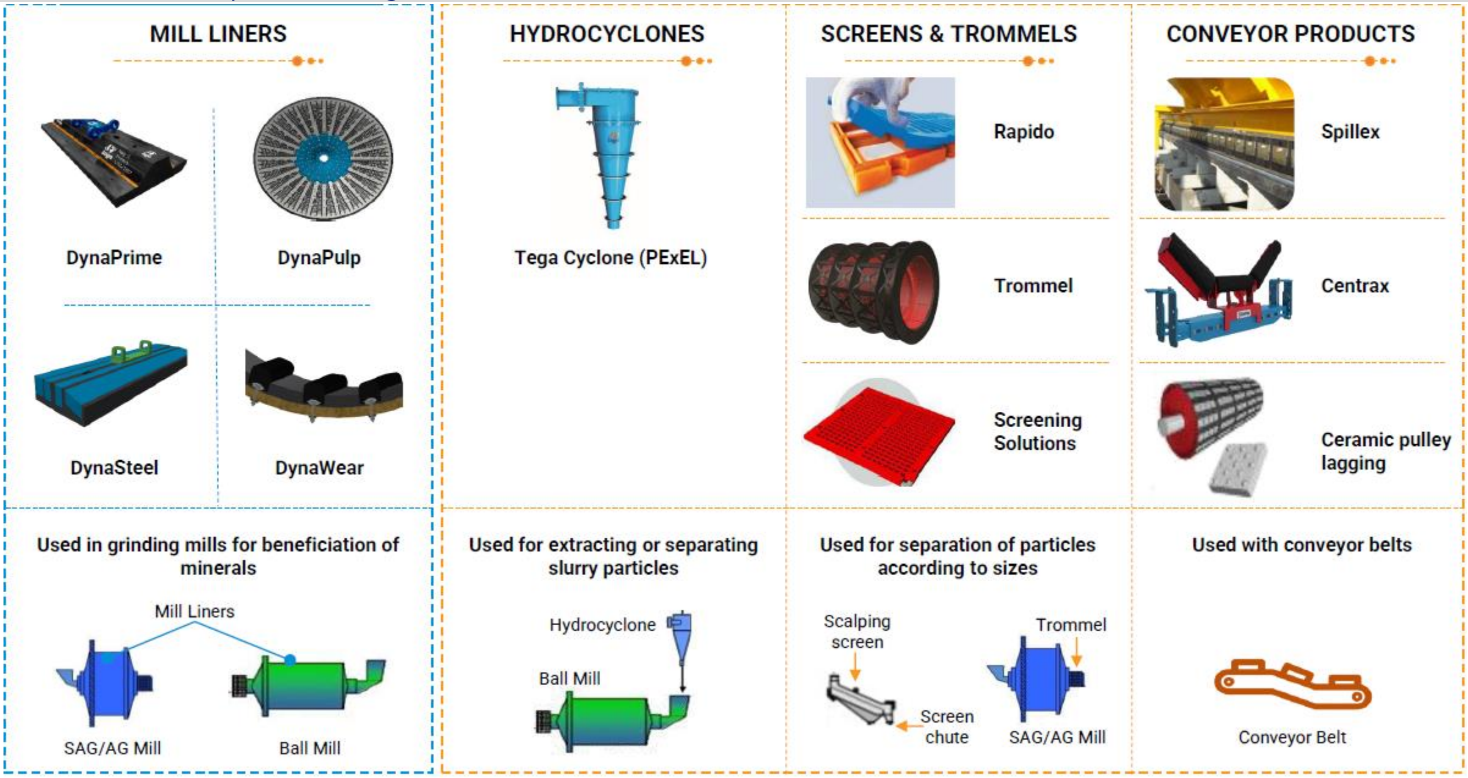
Source: Company, JM Financial

Exhibit 10. Other Products development leading to solutions for client

Products	Problem	Solution	Result
Chute	Gold mines in Canada suffered from uneven distribution of mill discharge. The objective was to get an even distribution of mill discharge with solid reporting on each outlet.	Upon critical examination, it was understood that the percentage of solid distribution was uneven between two feeder boxes and as a result the screens downstream were either underfed or overfed. Tega offered new tapered discharge chute, with its improved design and a rock box kind of arrangement.	The chute resulted in an almost even split as desired for the circuit. Further, the liner selection was optimised to suit the new design and maximise the liner life. This resulted in the overall improvement in performance and increased downstream circuit efficiency.
Trommel	Copper mines suffered from regular shutdowns due to the short life of the trommel panels. The objective was to improve the life of the trommel panel for greater productivity.	Upon critical examination, it was understood that the design of the panel was not in line with the wear rate based on the operating conditions. Therefore, the design of the panel was optimised to counteract the wear rate with an improved panel.	Tega's heavy duty rubber trommel panels optimised for each specification resulted in an increase in the life of the panels, reduction in the number of shutdowns per annum and reduction in the cost per tonne of the trommel panels.
Centrax	Iron ore mines in India suffered from frequent tripping due to exaggerated belt sway, which resulted in unscheduled shutdown to clean the spillage. The objective was to control the belt sway, stop unscheduled shutdowns and eliminate the damage to the belt and the structure.	Upon critical examination, it was understood that the tripping was due to the high belt sway. The belt was analysed section-wise to identify the starting points of sway and Centrax was offered in identified locations to arrest the belt sway.	Centrax resulted in reduction of the belt sway, which reduced the instances of tripping of the belt. The reduced belt sway also increased the belt life and provided annual savings to the customer.

Source: Company, JM Financial

Exhibit 11. Diversified product offerings



Source: Company, JM Financial

Additionally Tega is focusing on smart products using sensors, IOT, etc., so that it can share performance data and equipment health with the client in advance, reducing downtime and saving millions for the customer.

Smart product offerings include 1) Wear sensors, 2) Bolt tension monitoring system, 3) MaxxKleen.

Wear sensors: They continuously monitor DynaPrime liners and provide real-time information on the condition of the liners, helping to prevent unplanned shutdowns and facilitating maintenance planning.

Bolt tension monitoring system: It allows real-time evaluation of the integrity of fastenings under various operational conditions, enabling early detection of potential failures. The system is designed to easily integrate with existing fastening systems by adding an additional washer without altering the original configuration. This ensures quick and hassle-free implementation, improving the safety and efficiency of operations. Products with this system have been successfully installed at the mines in Peru and Chile.

MaxxKleen: "MaxxKleen" is a programmable motor-driven system fitted under the return side of the belt in the discharge end. It helps to reduce the accumulation of carry back by catching and collecting the fallen carry back material from the return side of the conveyor belt and transferring it back to the transfer chute along with the mainstream of materials. MaxxKleen eliminates manual cleaning and requirements for conveyor shutdown for cleaning.

Well-spread manufacturing facilities

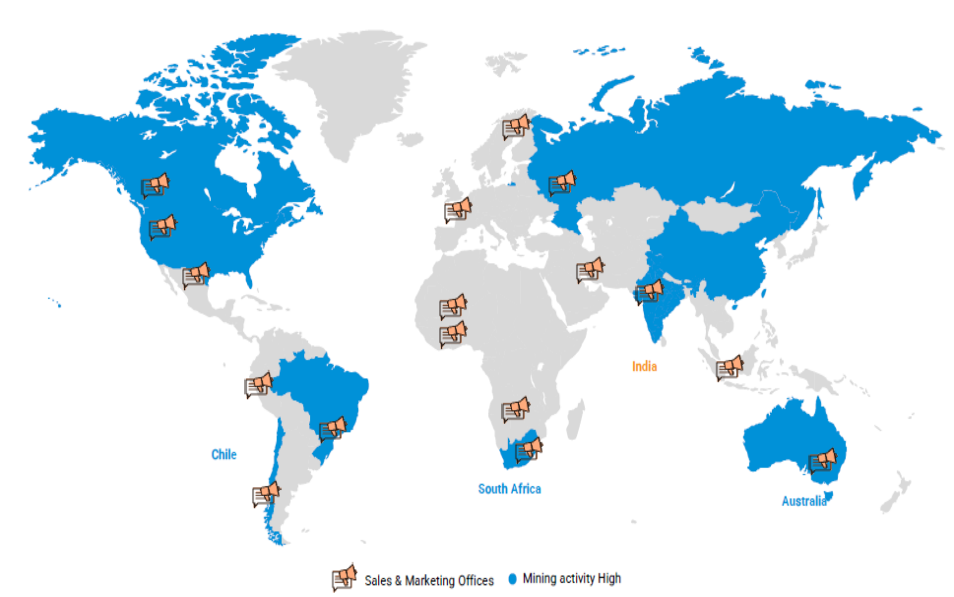
Tega has six manufacturing facilities for its consumable business of which three are located in India and three globally, close to the customers. Tega has, in the past, acquired manufacturing facilities across mining hubs that complemented its operations and reach. The acquisition of MSEL has added four more plants to the Tega fold; the plants are located in Gujarat, Karnataka, West Bengal, and Jharkhand. We believe that having a global manufacturing presence provides a moat to the company from sudden supply chain disruption and levy of anti-dumping duty by government. It is the price leader in most of the markets, and its prices are not too lower compared to other players; most of the time, the company is placed first or second, price-wise.

Exhibit 12. Manufacturing facilities

Sr. No	Plant Location	Products Manufactured	Operational
Tega Industries- Domestic			
1	Dahej	Mill liner, wear products, screens and Trommels	2013
2	Samali, West Bengal	Mill liners, Wear products, Hydrocyclones, Screens, Trommels & Conveyor products	1985
3	Kalyani, West Bengal	Mill liners (except DynaPrime), Conveyor products, Chute liners & pump liners, Hydrocyclones	1978
Tega Industries- International			
1	Chile	Mill liners, Trommels, Chute liners, Screens, Pipe and pipe repair and spools	2011
2	South Africa	Mill liners (except DynaPrime), Spillex, Screen Panel, Chute liners	2006
3	Australia	Chute liners and Trommels	2010
Tega McNally Minerals Ltd.			Acquisition
1	Vadodara, Gujarat	Crushers, vibrating screens, feeders and other material handling equipment's	2023
2	Bangalore, Karnataka	Thickener, pumps, filter press, floatation cells, sand washing plant	2023
3	Asansol, West Bengal	Vibrating screens, feeders, ball mills, crushers and job shops	2023
4	Kumardubi, Jharkhand	Mills, crushers, screen, feeders and job shops	2023

Source: Company, JM Financial

Exhibit 13. Global presence : Manufacturing and sales office



Source: Company, JM Financial

Capacity expansion: The company is undertaking capex in Chile and engaged in brownfield expansion in South Africa and India to enhance its capacity and capitalise on new growth opportunities. Going forward, it will also look towards debottlenecking to grow capacity.

Chile project

- Capex towards the Chile plant would be ~USD 25mn and is expected to be completed by 4QFY26.
- Capacity is expected to reach 10,000 tonnes post expansion from 5,000 tonnes currently.
- Revenue potential of the Chile plant is c.USD 100mn.
- The plant will help the company to target the LATAM market.

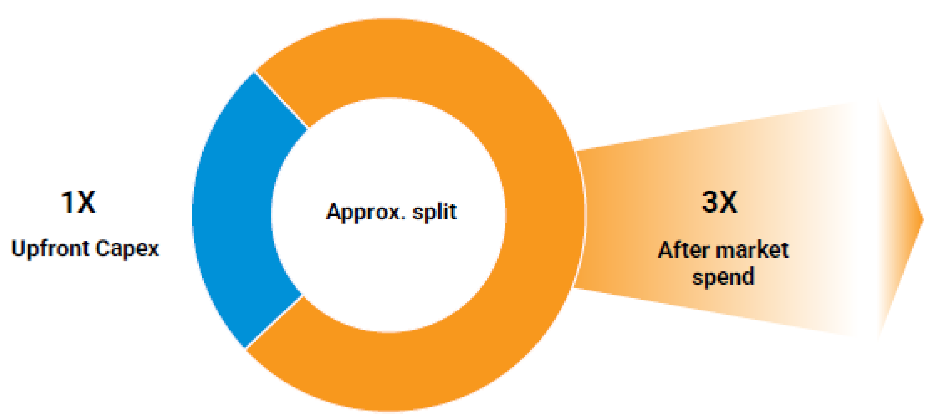
Industry dynamic places Tega better in growth story

Insulated from capex cyclicity of mining players

Manufacturers of mill liners and other consumables primarily cater to the after-market spends of a mineral processing unit. The life of a mill liner typically varies from 6 months to 2 years based on the hardness of the ore to be refined. After-market spend is typically three times the upfront capex spend over the lifecycle of a mill, and is a recurring cost for miners. Tega's products cater to the after-market spend of mining processing units. 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.

Hence, despite volatility in the capex cycle for gold and copper mining sites, Tega is not likely to be impacted as a majority of its products were lined to the operating expenditure budget of the mining site and not capital expenditure.

Exhibit 14. Upfront capex and after-market spend over the lifecycle of a mill



Source: Company, JM Financial

Depleting ore grades leading to increased consumable requirements

Gold and copper mill sites require superior quality of consumables and have higher beneficiation requirements. Across copper and gold ore mines, ore grades declined over the last few years. Hence to meet the increasing demand for metal requires more processing of ore to produce same output.

- Chile's copper mines, average mined grades dropped from 0.9% in 2015 to 0.74% in 2023.
- While for gold average open pit gold ore grade globally has declined c.16% since 2012.

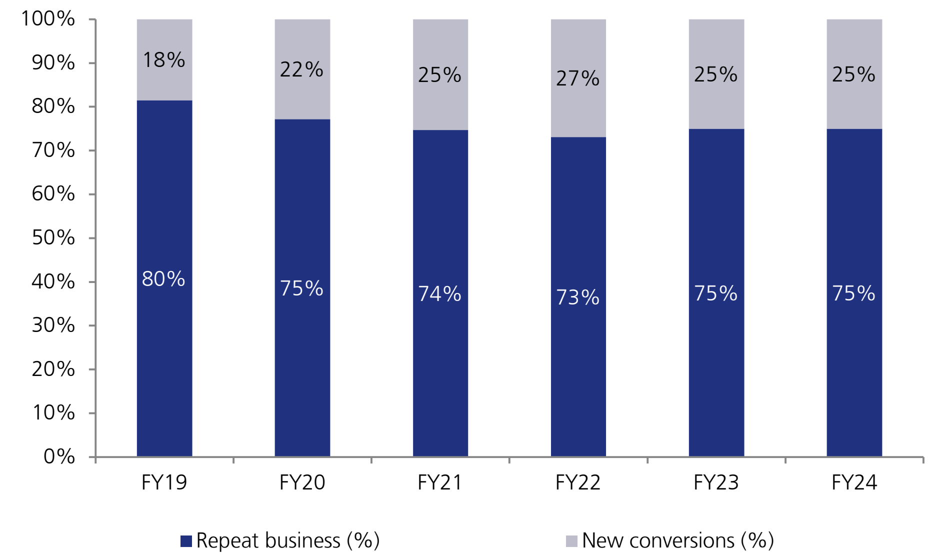
Customer stickiness provides strong entry barriers

Mining consumables like mill liners and other products are highly engineered products and need to be customised for each mill and each plant location. For the manufacturers of such products, each mining site is an individual customer since the ore for the same commodity can vary significantly based on the location. The product development process uses a combination of mineral processing engineering, mechanical engineering and material sciences.

Mineral processing sites do not tend to easily switch to a substitute supplier due to the high cost of initial planning involved, the lead time required for approval, the degree of certainty of products of an established supplier, the high cost of downtime or shutdown of a site, and relatively lower percentage cost of components in the total operating costs of a mineral processing site. It takes 9-15 months to become an approved supplier once approved by a customer, and these approvals do not have an expiry period.

Mill liners account for only about 3-15% of the mill's operating costs but the cost of stoppage in case of failure is very high. In one particular case study of gold ore processing, the downtime cost per hour was assessed at USD 174,042. Entry into the industry requires customer validation and approvals, expectation from customers of product innovation, high quality standards and stringent specifications. Given these are 'critical-to-operate' products, stringent checks are in place to ensure timely supply and adequate stocking of replacement parts to avoid unplanned shutdown and reduce downtime.

Exhibit 15. Repeat customers account for 75%+ of total business



Source: Company, JM Financial

Successful track record of inorganic growth story

Tega has been consistently expanding its product and geographical footprint in the past, though acquisition. The company is always looking out for inorganic opportunities, and evaluate which is a more asset-light opportunity. It considers the technology and the product line, and if there is a manufacturing unit the company evaluates whether it can be moved to Tega's existing location.

- In FY07, Tega acquired Tega Industries Africa (Pty) Ltd (formerly Beruc Equipment (Proprietary) Limited) ("Tega Africa"), a South Africa-based manufacturer and distributor of grinding mill liners and screen media, etc. The acquisition provided access to manufacturing capabilities and customers in Africa's mining and industrial markets including member countries of the Southern African Development Community (SADC).
- In FY11, Tega acquired Chile-based Tega Industries Chile SpA (formerly Acotec SA) ("Tega Chile") which manufactures pumps, screen media, and wear products. The facilities in Chile gave it access to the South American markets including Chile, Peru, and Bolivia

(Latin American markets contribute 40% of global copper production and 8% of global gold production).

- In FY11, Tega acquired Perth-based Losugen Pty Ltd ("Losugen"), which specialises in the design, distribution, installation, wear monitoring of wear liners, rubber lining, and screens for mining handling industries.
- In FY23, Tega Industries acquired McNally Sayaji Engineering Ltd (MSEL) through CIRP process. This was Tega's first acquisition in India and the fourth worldwide. McNally Sayaji Engineering offers solutions in the field of manufacturing and marketing of crushing, screening, grinding, material handling, and mineral processing equipment coupled with integrated customer support and aftersales service. It will aid Tega's product portfolio as global competitors like Metso are extending O&M contracts to customers, which include replacement of spare parts as well, heightening competition for pure consumable companies like Tega Industries. Thus, it becomes vital for Tega to extend its product offering to counter these disruptive trends. The acquisition value is pegged at INR 1.65bn (0.9x FY23 revenue). We expect equipment business to report a revenue CAGR of 16% over FY24-27E to reach INR 3.2bn by FY27.

Exhibit 16. Financials of Tega's key subsidiaries

INR mn	Mar'20	Mar'21	Mar'22	Mar'23	Mar'24
Chile					
Revenue	1,400	1,828	2,231	2,938	3,833
growth (%)	37.5%	30.6%	22.1%	31.7%	30.5%
PAT	149	227	156	287	268
growth (%)	-147.9%	52.7%	-31.1%	83.2%	-6.6%
Australia – Losugen					
Revenue	337	280	429	677	768
growth (%)	-27.6%	-17.1%	53.3%	57.9%	13.4%
PAT	22	12	11	63	67
growth (%)	-65.7%	-44.2%	-4.7%	446.8%	6.9%
South Africa					
Revenue	724	1,012	1,503	1,679	1,089
growth (%)	-7.1%	39.7%	48.4%	11.7%	-35.2%
PAT	7	125	149	207	85
growth (%)	-364.8%	1758.1%	18.4%	39.3%	-58.7%
Tega McNally					
Revenue	1,752	1,777	1,722	1,834	2,061
growth (%)	-28.0%	1.4%	-3.1%	6.5%	12.4%
PAT	-65	66	-434	34	14
growth (%)	-82.8%	-200.9%	-761.2%	-107.8%	-59.2%

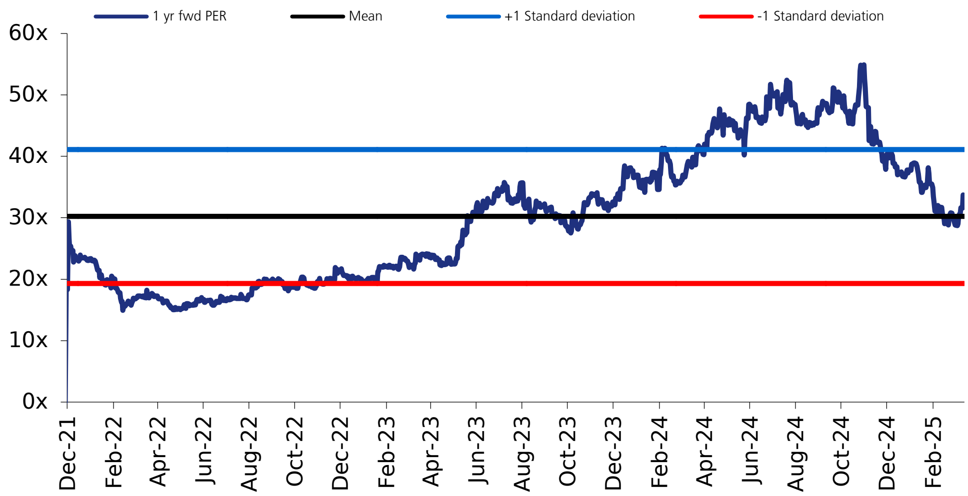
Source: Company, JM Financial

Outlook and Valuation

We remain positive on the stock factoring in a) healthy penetration opportunity for DynaPrime lines, b) cross-selling opportunity for equipment, c) upcoming Chile plant, which will help the company tap the LATAM markets and d) expansion into newer geographies. Tega, which was earlier present only in rubber mill liner and PM Mill liner, had a limited TAM of c.USD 400mn. However, the launch of Dynaprime – the primary aim of which was to replace metal mill liner with composite mill liner (DynaPrime) – has opened up an additional addressable market of USD 900mn for the company. We expect Dynaprime to continue to be the key growth driver, coupled with additional revenue from McNally's equipment business.

We expect revenue and earnings CAGR of 19%/26% over FY24-27E, factoring in 19% revenue CAGR in the consumable business and 16% revenue CAGR in the equipment business. The stock is currently trading at a PE of 32.3x FY27E. We maintain "BUY" rating on stock with a TP of INR 2,025 based on 35x FY27E.

Exhibit 17. Price to Earning 12M FWD – Valuation charts



Source: JM Financial

Exhibit 18. Relative Valuation

Company	Mcap (INR bn)	EPS CAGR FY25-27E	P/E				EV/EBITDA				ROE			
			FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
Tega Industries	97	34.0	50.0	45.3	32.3	25.2	30.4	27.6	21.5	17.3	17.3	16.6	19.7	20.9
AIA Engineering	305	9.6	27.5	30.4	28.2	25.3	23.4	27.3	25.6	22.9	18.4	14.9	14.8	14.6
Carborundum Universal	189	19.6	42.7	42.3	35.4	29.5	27.1	26.7	22.2	19.1	14.7	13.5	14.5	15.8
Grindwell Norton	187	15.9	46.1	48.6	41.1	36.2	32.8	33.0	26.8	24.1	20.5	18.5	19.2	19.6
Industrial Consumable co. Average		**19.8**	**41.6**	**41.7**	**34.3**	**29.1**	**28.4**	**28.6**	**24.0**	**20.9**	**17.7**	**15.9**	**17.0**	**17.7**
Elecon Engineering	100	16.0	32.9	26.9	21.1	17.4	20.2	17.1	13.9	11.6	9.3	10.2	11.9	12.8
Praj Industries	97	37.4	19.7	21.7	15.5	13.1	12.8	12.6	10.4	9.0	21.7	16.9	19.8	19.3
Triveni Turbine	171	23.3	29.1	26.1	23.1	19.4	19.9	18.9	16.4	13.8	23.0	20.8	19.3	18.9
Harsha Engineering	34	24.3	35.1	40.4	28.6	21.4	24.4	24.6	18.0	13.9	23.5	17.9	21.7	24.3
Rolex Industries	35	28.8	64.5	47.2	38.0	31.1	49.9	37.1	29.8	24.1	31.1	32.9	32.6	31.8
Other Industrials Average		**25.9**	**36.3**	**32.5**	**25.3**	**20.5**	**25.4**	**22.0**	**17.7**	**14.5**	**21.7**	**19.7**	**21.1**	**21.4**

Source: Company, JM Financial

Exhibit 19. Change in estimates

INR mn	Revised Estimates			Previous Estimates			% chg		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Sales	17,099	20,622	25,010	17,154	20,920	25,427	-0.3	-1.4	-1.6
EBITDA	3,480	4,423	5,458	3,587	4,516	5,530	-3.0	-2.1	-1.3
EBITDA Margin (%)	20.4	21.4	21.8	20.9	21.6	21.7	-60bps	-10bps	10bps
Adj PAT	2,140	3,000	3,844	2,224	3,067	3,915	-3.8	-2.2	-1.8
Adj EPS (INR)	32.2	45.1	57.8	33.4	46.1	58.8	-3.8	-2.2	-1.8

Source: Company

Exhibit 20. JMFe vs. Consensus estimates

Consensus vs JM	JMFe			Consensus			Variation.		
INR mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	17,099	20,622	25,010	17,020	20,489	24,766	0.5%	0.6%	1.0%
EBITDA	3,480	4,423	5,458	3,429	4,531	5,436	1.5%	-2.4%	0.4%
EBITDA margins	20.4%	21.4%	21.8%	20.1%	22.1%	21.9%			
PAT	2,140	3,000	3,844	2,067	2,872	3,785	3.5%	4.5%	1.6%

Source: Company, JM Financial

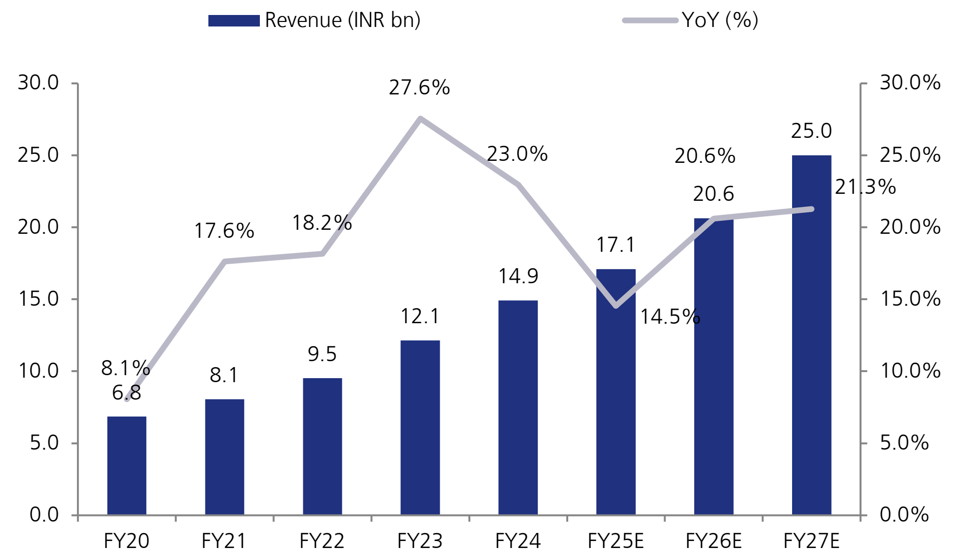
Key Risks

- Adverse movement in currency may impact revenue and margins.
- Inability to comply with quality standards may adversely impact operations.
- Tega may be subject to significant import duties or restrictions.
- Slower than expected acceptance of Dynaprime.

Financial Analysis

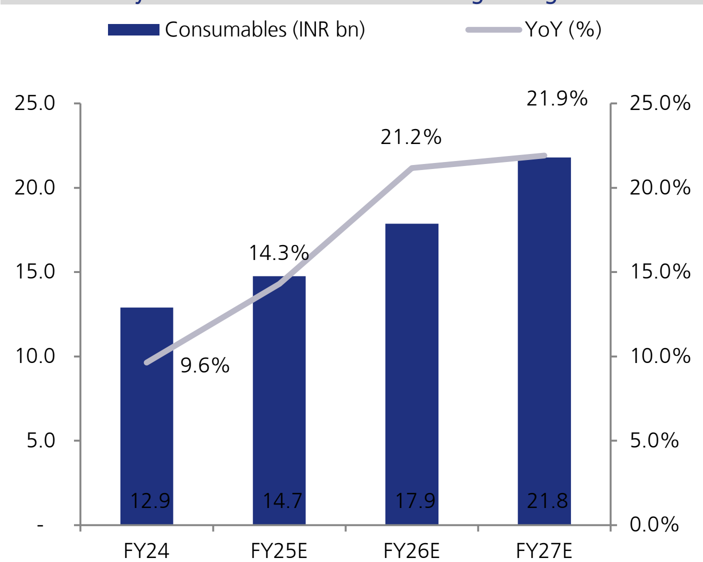
Sales to see 18.8% CAGR over FY24-27E: We expect Tega's revenue to grow at a strong CAGR of c.18.8% over FY24-27E to INR 25bn in FY27. We expect the Consumable segment to report a CAGR of 19% during the same period, mainly driven by strong growth in DynaPrime. Additionally, the multi-year agreement with European copper mine (5+1 year) will contribute to revenue growth (contract size of INR 6.9bn revenue over 6 years). The Equipment segment is expected to report a CAGR of 16% over FY24-27E, led by the company's continued focus to scale up the business.

Exhibit 21. Revenue seen growing at a healthy CAGR of 18.8% during FY24-27E



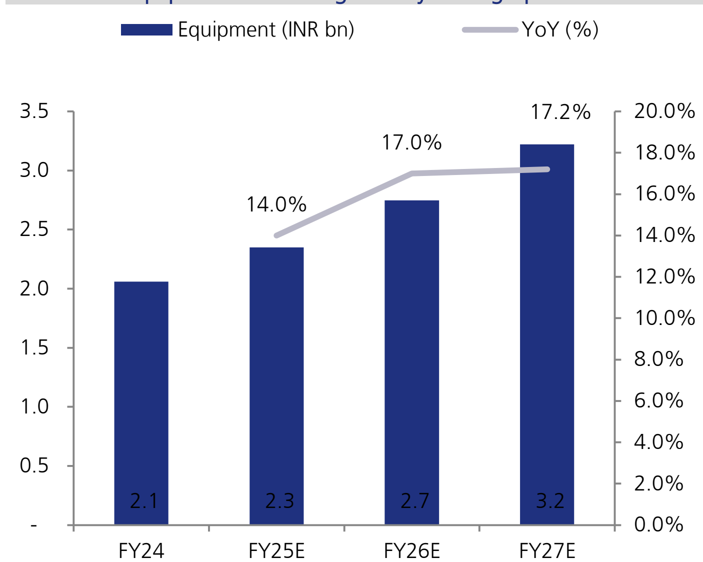
Source: Company, JM Financial

Exhibit 22. DynaPrime to drive consumable segment growth



Source: Company, JM Financial

Exhibit 23. Equipment business gradually scaling up

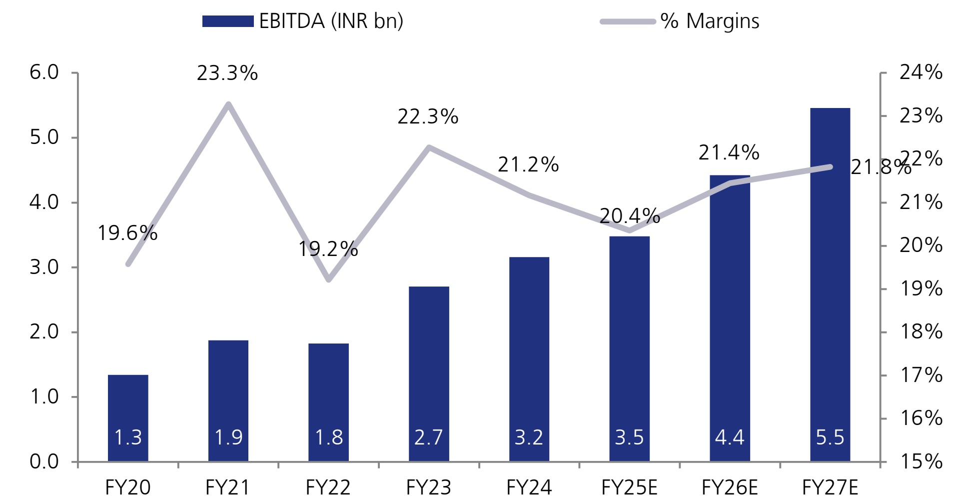


Source: Company, JM Financial

Margin profile moderated due to MSEL Acquisition: Tega's superior product profile, customer stickiness and new product launches have enabled the company to pass on any cost escalation to the customer and achieve healthy margins. Further, liner accounts for 3-15% of overall operating cost of the mill, but it is critical in nature; hence, switching a supplier only due to price-related reasons is a remote possibility, giving Tega cushion to pass on the cost escalation. In the past, EBITDA margin has been healthy at ~19-23%. With increasing adoption of DynaPrime, margins are likely to expand for the consumable segment.

Equipment margins are also expected to improve steadily, led by the company's focus on improving efficiency and cost-control measures, and expands to 12.5% in FY27 from 8.7% in FY24. Blended EBITDA margin is expected to be 21.8% in FY27 vs. 21.2% in FY24.

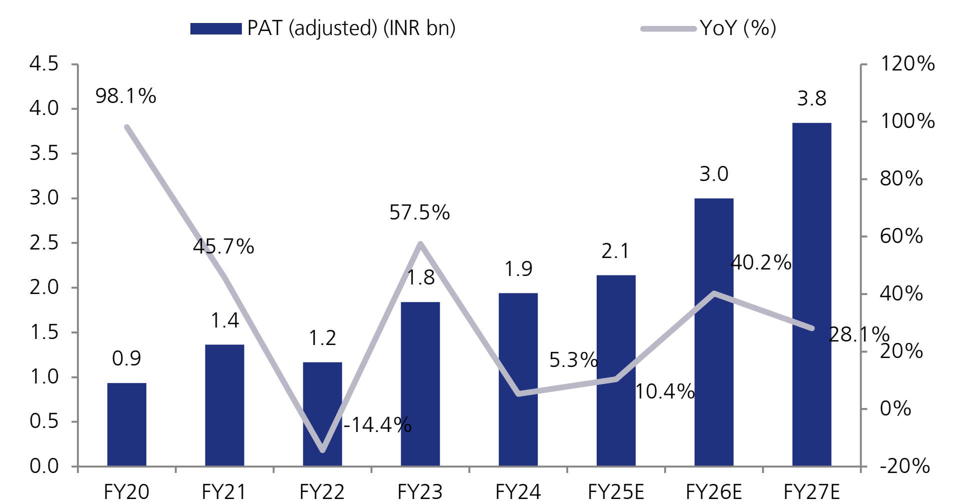
Exhibit 24. EBITDA margin expanding YoY



Source: Company, JM Financial

Strong revenue and operating performance to drive profitability: We expect Tega to report healthy PAT CAGR of 25.6% over FY24-27E, driven by healthy revenue growth and better margins. PAT is likely to reach INR 3.8bn in FY27 vs. INR 1.9bn in FY24.

Exhibit 25. PAT CAGR of 25.6% likely over FY24-27E



Source: Company, JM Financial

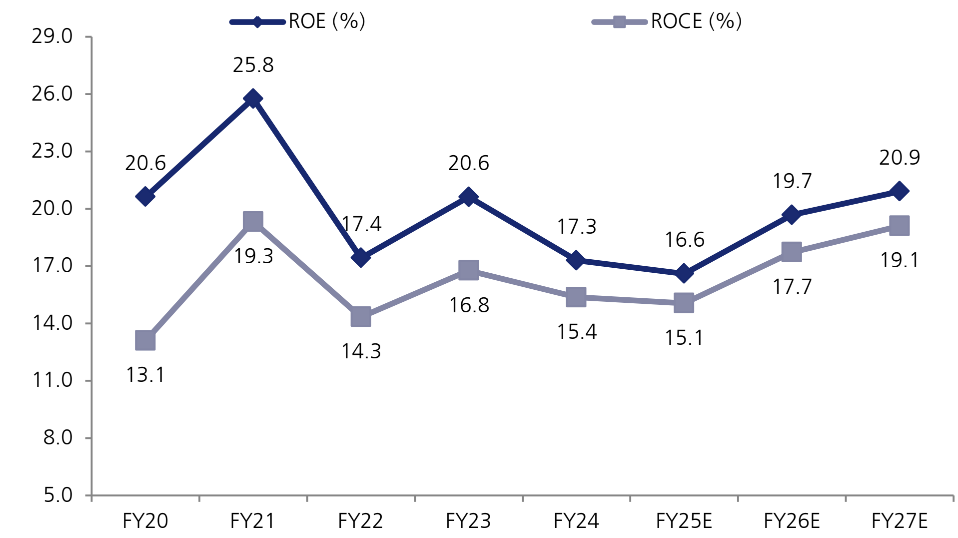
RoE likely to expand to 20.9% by FY27: RoE was 17.3% in FY24 vs. 20.6% in FY23, impacted mainly by the decline in margin profile on account of the acquisition of MSEL. We expect RoE to gradually improve from FY26 onwards with improving performance in Tega McNally, healthy c.19% revenue CAGR, and higher asset turnover.

Exhibit 26. DuPont analysis

Dupont analysis	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Margin (%)	13.7	16.9	12.3	15.2	13.0	12.5	14.5	15.4
Asset Turnover (x)	1.0	1.1	1.1	1.0	1.1	1.1	1.2	1.2
Leverage factor (x)	1.2	1.4	1.3	1.3	1.3	1.2	1.1	1.1
RoE (%)	**15.1**	**25.8**	**17.4**	**20.6**	**17.3**	**16.6**	**19.6**	**20.9**

Source: Company, JM Financial

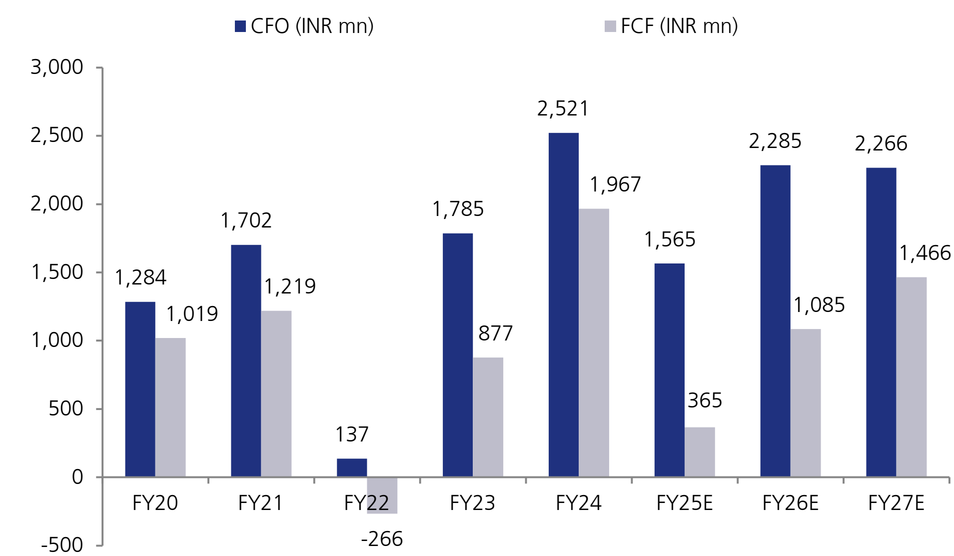
Exhibit 27. RoE and RoCE profile



Source: Company, JM Financial

Healthy cash flow profile: Tega has been consistently generating positive cash flow (CFO) from operations over the last 5 years; it generated CFO of INR 7.4bn over FY20-24. We expect CFO of INR 6.1bn over FY25E-27E and FCF of INR 2.9bn over the same period.

Exhibit 28. Consistently generated positive CFO



Source: Company, JM Financial

Exhibit 29. Contingent liability

INR Mn	FY19	FY20	FY21	FY22	FY23	FY24
Contingent Liabilities	**233**	**59**	**151**	**159**	**180**	**192**
Excise Duty/Service Tax and Sales Tax Liabilities Dispute	144	42	89	89	89	79
Customer Claims	20	4	4	4		
Surety in connection with bond executed by a group company	2	2	2	0		
Commitment on Capital Account	67	11	56	66	91	113

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	12,140	14,927	17,099	20,622	25,010
Sales Growth	27.6%	23.0%	14.5%	20.6%	21.3%
Other Operating Income	0	0	0	0	0
Total Revenue	**12,140**	**14,927**	**17,099**	**20,622**	**25,010**
Cost of Goods Sold/Op. Exp	5,277	6,455	7,438	8,867	10,754
Personnel Cost	1,627	2,199	2,541	2,909	3,299
Other Expenses	2,532	3,114	3,640	4,423	5,499
EBITDA	**2,705**	**3,160**	**3,480**	**4,423**	**5,458**
EBITDA Margin	22.3%	21.2%	20.4%	21.4%	21.8%
EBITDA Growth	47.9%	16.8%	10.1%	27.1%	23.4%
Depn. & Amort.	412	637	1,004	1,009	1,055
EBIT	2,293	2,523	2,475	3,414	4,402
Other Income	207	222	475	535	586
Finance Cost	181	320	260	177	164
PBT before Excep. & Forex	2,318	2,425	2,690	3,772	4,824
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,318	2,425	2,690	3,772	4,824
Taxes	521	531	604	846	1,084
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-43	-44	-53	-74	-104
Reported Net Profit	1,841	1,939	2,140	3,000	3,844
Adjusted Net Profit	**1,841**	**1,939**	**2,140**	**3,000**	**3,844**
Net Margin	15.2%	13.0%	12.5%	14.5%	15.4%
Diluted Share Cap. (mn)	66.4	66.5	66.5	66.5	66.5
Diluted EPS (INR)	**27.7**	**29.1**	**32.2**	**45.1**	**57.8**
Diluted EPS Growth	57.4%	5.0%	10.4%	40.2%	28.1%
Total Dividend + Tax	133	133	200	233	333
Dividend Per Share (INR)	2.0	2.0	3.0	3.5	5.0

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	10,490	11,918	13,859	16,626	20,137
Share Capital	664	665	665	665	665
Reserves & Surplus	9,826	11,253	13,193	15,961	19,472
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	3,095	2,431	2,231	1,931	1,931
Def. Tax Liab. / Assets (-)	-115	-136	-136	-136	-136
Total - Equity & Liab.	**13,469**	**14,214**	**15,954**	**18,421**	**21,933**
Net Fixed Assets	4,978	5,497	5,693	5,883	5,628
Gross Fixed Assets	9,645	10,814	12,014	13,214	14,014
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	4,788	5,425	6,429	7,438	8,493
Capital WIP	120	107	107	107	107
Investments	2,169	2,791	2,891	3,391	4,391
Current Assets	9,032	10,424	11,587	13,949	17,052
Inventories	2,896	3,701	4,216	4,972	6,030
Sundry Debtors	4,031	4,473	5,106	6,158	7,469
Cash & Bank Balances	493	867	947	1,357	1,912
Loans & Advances	412	171	234	282	343
Other Current Assets	1,199	1,212	1,083	1,179	1,299
Current Liab. & Prov.	2,709	4,498	4,216	4,802	5,139
Current Liabilities	1,119	1,834	1,640	1,977	2,056
Provisions & Others	1,590	2,665	2,577	2,825	3,083
Net Current Assets	6,323	5,926	7,370	9,147	11,913
Total – Assets	**13,469**	**14,214**	**15,954**	**18,421**	**21,933**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	2,361	2,470	2,744	3,846	4,928
Depn. & Amort.	412	637	1,004	1,009	1,055
Net Interest Exp. / Inc. (-)	161	258	-215	-358	-421
Inc (-) / Dec in WCap.	-748	-402	-1,365	-1,366	-2,212
Others	56	-21	0	0	0
Taxes Paid	-457	-420	-604	-846	-1,084
Operating Cash Flow	**1,785**	**2,521**	**1,565**	**2,285**	**2,266**
Capex	-909	-554	-1,200	-1,200	-800
Free Cash Flow	877	1,967	365	1,085	1,466
Inc (-) / Dec in Investments	-1,429	-353	-100	-500	-1,000
Others	0	0	0	0	0
Investing Cash Flow	**-2,338**	**-907**	**-1,300**	**-1,700**	**-1,800**
Inc / Dec (-) in Capital	2	6	0	0	0
Dividend + Tax thereon	0	0	-200	-233	-333
Inc / Dec (-) in Loans	877	-669	-200	-300	0
Others	-249	-489	215	358	421
Financing Cash Flow	**630**	**-1,152**	**-185**	**-175**	**89**
Inc / Dec (-) in Cash	**78**	**462**	**80**	**410**	**555**
Opening Cash Balance	402	493	867	947	1,357
Closing Cash Balance	493	867	947	1,357	1,912

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	15.2%	13.0%	12.5%	14.5%	15.4%
Asset Turnover (x)	1.0	1.1	1.1	1.2	1.2
Leverage Factor (x)	1.3	1.3	1.2	1.1	1.1
RoE	20.6%	17.3%	16.6%	19.7%	20.9%

Key Ratios

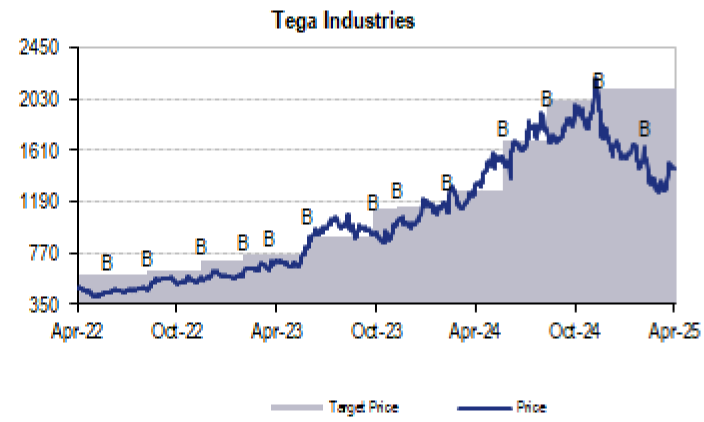
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	158.1	179.1	208.3	249.9	302.7
ROIC	19.2%	17.3%	15.5%	18.5%	20.3%
ROE	20.6%	17.3%	16.6%	19.7%	20.9%
Net Debt/Equity (x)	0.1	0.0	0.0	-0.1	-0.1
P/E (x)	52.5	50.0	45.3	32.3	25.2
P/B (x)	9.2	8.1	7.0	5.8	4.8
EV/EBITDA (x)	35.8	30.3	27.4	21.4	17.3
EV/Sales (x)	8.0	6.4	5.6	4.6	3.8
Debtor days	121	109	109	109	109
Inventory days	87	91	90	88	88
Creditor days	43	57	44	45	38

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
21-Jan-22	Hold	630	
17-Feb-22	Buy	590	-6.3
26-May-22	Buy	590	0.0
8-Aug-22	Buy	630	6.8
14-Nov-22	Buy	700	11.1
31-Jan-23	Buy	750	7.1
18-Mar-23	Buy	750	0.0
30-May-23	Buy	900	20.0
26-Sep-23	Buy	1,130	25.6
11-Nov-23	Buy	1,145	1.3
9-Feb-24	Buy	1,275	11.4
23-May-24	Buy	1,690	32.5
9-Aug-24	Buy	2,010	18.9
15-Nov-24	Buy	2,120	5.5
7-Feb-25	Buy	2,120	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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