

TEGA INDUSTRIES LIMITED | Industrial Equipments

Strong quarter, momentum continues

LKP

Tega Industries(Tega) reported strong results better than expectations despite unfavorable challenges. Sales saw 19.7% growth at ₹2,762 mn and robust sales growth was seen across geographies. Company's diversified products continue to do well with its marquee product - Dynaprime leading its growth dynamics, witnessing 32% growth in H1FY23 while its Non-Dynaprime portfolio grew 20% in H1. With easing freight costs and normalization of container availability, margins expanded 254bps while EBITDA improved 37.5% YoY. Further, operating leverage enhancing profitability these evident from margin expansion both in annual (+57.4% YoY) and sequential terms (56.2% QoQ). Management expects the momentum to continue across its product lines specially Dynaprime where company is targeting above +25% CAGR growth as it sees better order booking across different geographies apart from Latin America. Order booking during the quarter remained strong at ₹3.5bn while the overall pending order book stands at ₹16.5bn showing strong revenue visibility ahead. On margins, management indicated that its margin ambition is to be between 21-23%.

Overall, we remain positive on Tega, given the performance in H1FY23 and strong growth prospects ahead further substantiated by the fact that it has diversified product portfolio coupled with introduction of new products - DynaPrime liners opening opportunities in global steel mill liner market for conversion, 2) strong relationships with customers (>10 years) with sticky customer base 3) de-risked business model due to low customer concentration. We have tweaked our revenue and margins nos. given the strong performance in H1FY23 and strong visibility ahead. We expect the company to deliver sales/EPS CAGR of 18%/26% over FY22-24E. We maintain BUY on Tega with a revised price target of ₹664.

Q2FY23 Summary

Sales saw 19.7% growth at ₹2,762 mn wherein robust sales growth seen across geographies. Company's diversified products continue to do well and its marquee product Dynaprime leading its growth dynamics witnessing 32% growth in H1FY23 while its Non-Dynaprime portfolio growing 20% in first half. With easing freight cost and normalization of container availability, margins expanded 254bps while EBITDA improved 37.5% YoY. Further, operating leverage enhancing the profitability is evident from margin expansion both in annual (+57.4% YoY) and sequential terms (56.2% QoQ).

Key Financial	FY20	FY21	FY22	FY23E	FY24E
Total Sales (₹ mn)	6,848	8,055	9,518	11,302	13,391
EBITDA Margins (%)	15.7	23.3	19.2	21.7	22.3
PAT Margins (%)	7.5	7.4	6.5	6.6	7.4
EPS (₹)	11.4	24.1	19.7	21.7	27.2
P/E (x)	50.4	23.8	29.1	26.4	21.1
P/BV (x)	8.2	6.2	5.2	4.3	3.6
EV/EBITDA (x)	37.0	20.9	21.7	16.1	12.9
RoE (%)	15.2	22.2	17.3	18.1	18.9
RoCE (%)	12.1	26.4	19.0	20.1	21.7

Rating	BUY
Current Market Price (₹)	575
12 M Price Target (₹)	664
Potential upside (%)	15

Stock Data

FV (₹) :	10
Total Market Cap (₹ bn) :	38
Free Float Market Cap (₹ bn) :	8
52-Week High / Low (₹)	768 / 397
6M Avg. Dly Traded Volume (in lakh)	1.24
BSE Code / NSE Symbol	543413 / TEGA
Bloomberg :	TEGA IN

Shareholding Pattern

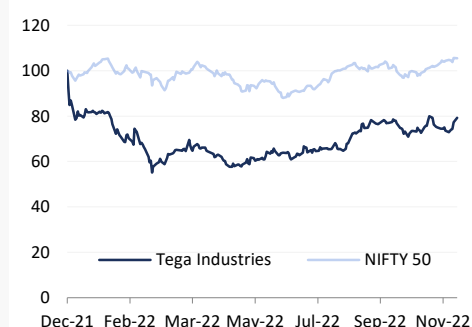
(%)	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	79.17	79.17	79.17	79.17
FPIs	2.48	2.39	2.17	2.73
MFs	10.91	9.57	8.95	7.38
Others	7.44	8.87	9.71	10.72

Source: BSE

Price Performance

(%)	1M	3M	6M
Tega Industries	9.2%	16.7%	35.1%
Nifty 50	6.7%	3.6%	16.1%

* To date / current date : November 14, 2022

Tega Industries vs Nifty 50

Geography wise revenue growth in H1FY22-South America (+31%), Africa 14, EMR-80% Asia-Pac 43%, India-37% while North America declined -7% and expected to ramp up in H2FY23. With easing freight cost and normalization of container availability margins expanded 254bps while EBITDA improved 37.5% YoY. Further, operating leverage enhancing the profitability evident from margin expansion both in annual (+57.4% YoY) and sequential terms (56.2% QoQ).

Exhibit 1: Quarterly Performance

(₹ mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Sales	2,762	2,307	19.7	2,444	13
Raw Material	1,166	975	19.5	1,009	15.5
% of Sales	42.2	42.3		41.3	
Employee Cost	424	370	14.7	385	10
% of Sales	15.4	16		15.8	
Other Exp	631	568	11	588	7.3
% of Sales	22.8	24.6		24	
Total Exp	2,221	1,914	16	1,983	12
EBITDA	541	393	37.5	462	17.2
EBITDA Margin (%)	19.6	17.1	253.9	18.9	
Other Income	67	20	229.9	-33	-305.8
Interest	49	26	89.6	50	-2
Depreciation	96	102	-5.5	91	5.5
Exceptional Items	-	-		-	
PBT	463	286	62	288	61
Tax	119	67	76.8	67	76.6
Tax rate (%)	25.6	23.5		23.4	
Adjusted PAT	345	219	57.4	221	56.2
Exceptional Items	-	-		-	
Reported PAT	354	226	56.8	230	53.4
PAT Margin (%)	12.8	9.8		9.4	
EPS (₹)	5.3	4	56.8	3.5	53.2

Source: Company, LKP Research

Outlook and Valuation

Overall we remain positive on the stock given the performance in H1FY23 and strong growth prospects ahead further substantiated from the fact that it has diversified product portfolio coupled with introduction of new products - DynaPrime liners opening opportunities in global steel mill liner market for conversion, 2) strong relationships with customers (>10 years) with sticky customer base 3) de-risked business model due to low customer concentration. The stock has already moved up 22% from our initiation. We have tweaked our revenue and margins nos given the strong performance in H1FY23 and strong visibility ahead. We expect the company to deliver sales/EPS CAGR of 18%/26% over FY22-24E. We maintain BUY on Tega with a revised price target of ₹664.

Key Risks:

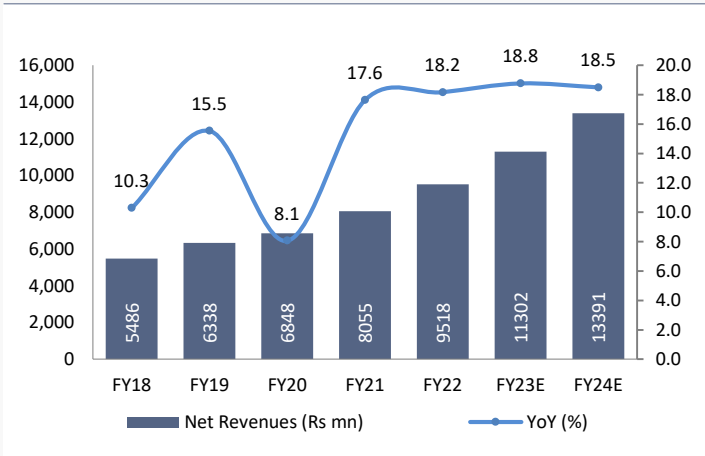
- Inability to comply with quality standards may adversely impact operations
- Cancellations in orders or inability to forecast demand may impact operations,
- Adverse movement in currency may impact revenues and margins.

Q2 FY23 Concall Highlights

- Delivered double digit growth in key metrics despite unfavorable global challenges.
- Even though macro environment continues to be challenging, robust sales growth seen across all geographies specially in Australia which was lagging behind due to prolonged restriction from covid.
- Operating leverage enhancing the profitability evident from margin expansion both in annual and sequential terms.
- Strong pending order book of ₹3.45 bn in Q2FY23.
- Exciting line of projects to unlock the next leg of growth including capacity expansion in Chile and India.
- Capex was funded through internal accruals and not added fresh debt during the quarter.
- Dynaprime to grow strongly across geographies (North America, Australia) apart from LATAM. Targeting 25%+ CAGR growth and witnessing strong order booking.
- Working capital days during the quarter at 143 days which was on the higher side in FY22 at 169 due to supply chain issues which continue to ease.
- Pending OB ₹16.45 bn, net debt positive by ₹280 mn.
- Normalisation of logistics cost to be seen in coming quarter which was lost last year and benefit margins.
- Product wise revenues Dynaprime - ₹1150 mn in H1 (=32%)/700 mn , Non Dynaprime- ₹2520 mn (+20%)/₹1130 mn (9%), Non mill liners- ₹1260 mn (+40%)/₹800 mn (60%) – Non mill liner growth was higher due to opening up of Australia from last two quarters (remained closed due to pandemic).
- Revenues saw 20% growth YoY wherein 18% vol growth, 2 % price growth and exchange impact was nil.
- Management indicated that Margin ambition is to be between 21-23%.
- Grown in all geographies except North America which is expected to ramp in H2FY22.
- Capex guidance- FY23 major capex done of about ₹570 mn and hardly ₹150-200 mn more to be done for FY23.
- Geography wise H1FY22 revenues growth-South America (+31%), Africa 14, EMR-80% Asiapac 43%, North America -7% and ramp up in H2, India-37%.
- Intent to move the WCC to 130 days.
- Four products filing for patent and are on trial at customer places in gridding process.
- Value terms capacity to double in next 3-4 years specific to Dynaprime and mill liners.

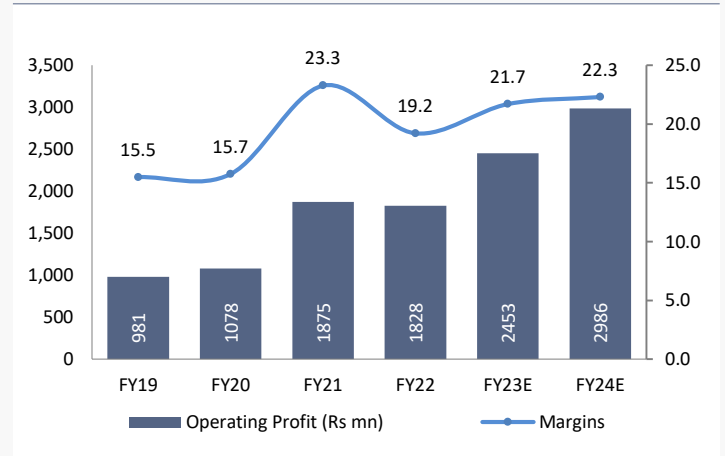
Financials in charts

Exhibit 2: Revenue trend



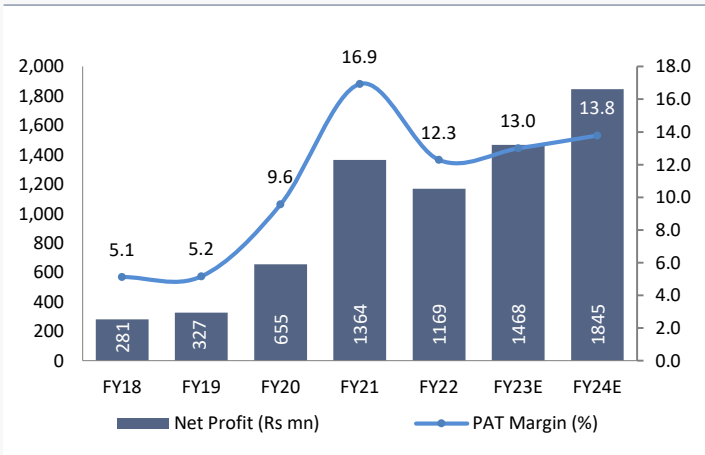
Source: Company, LKP Research

Exhibit 3: EBITDA and margin trend



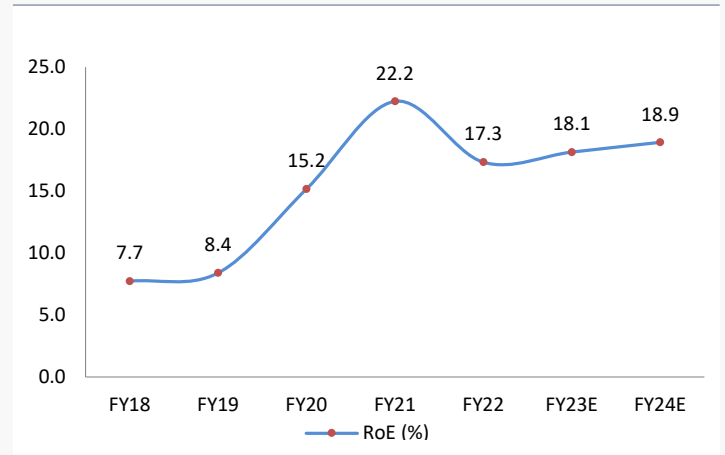
Source: Company, LKP Research

Exhibit 4: Net profit and profit margin



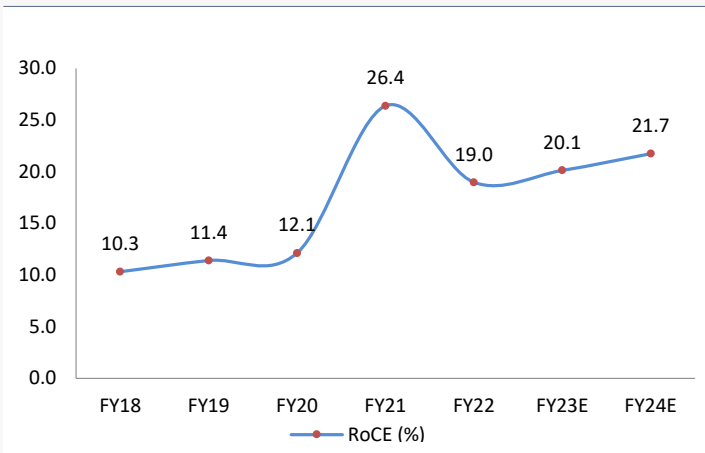
Source: Company, LKP Research

Exhibit 5: RoE trend



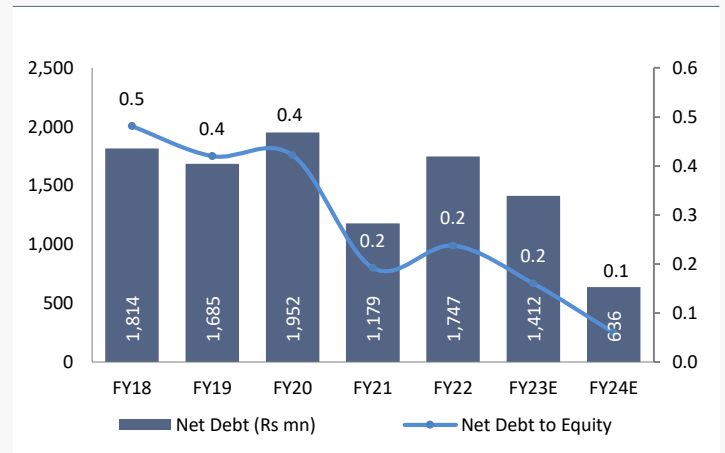
Source: Company, LKP Research

Exhibit 6: RoCE trend



Source: Company, LKP Research

Exhibit 7: Net Debt and Net Debt to Equity trend



Source: Company, LKP Research

Exhibit 8: Profit and Loss Statement - Consolidated

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Total Income	6,848	8,055	9,518	11,302	13,391
Raw material Cost	2,738	3,238	4,026	4,668	5,464
Employee Cost	1,153	1,227	1,434	1,707	2,009
Other expenses	1,878	1,716	2,229	2,475	2,933
Total operating Expenses	5,770	6,181	7,689	8,850	10,405
EBITDA	1,078	1,875	1,828	2,453	2,986
EBITDA Margins(%)	15.7	23.3	19.2	21.7	22.3
Depreciation & Amortisation	384	402	387	488	582
EBIT	695	1,473	1,441	1,965	2,404
Interest	228	173	162	175	149
Other Income	107	512	242	133	157
Recurring PBT	574	1,812	1,521	1,922	2,413
Add: Extraordinaries	-	-	-	-	-
PBT	574	1,812	1,521	1,922	2,413
Less: Taxes	(63)	475	381	484	607
Adjusted Net Income	655	1,364	1,169	1,468	1,845

Source: Company, LKP Research

Exhibit 9: Balance Sheet

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Assets					
Total Current Assets	4,242	4,884	6,591	7,778	9,298
of which cash & cash eqv.	369	484	402	538	913
Total Current Liabilities & Provisions	1,859	2,296	2,334	2,866	3,465
Net Current Assets	2,383	2,588	4,258	4,912	5,834
Investments	1,611	2,051	2,026	2,127	2,234
Net Fixed Assets	2,626	2,923	2,983	3,495	3,913
Capital Work-in-Progress	86	69	102	102	102
Goodwill	-	-	-	-	-
Total Assets	6,706	7,631	9,368	10,636	12,082
Liabilities					
Borrowings	2,321	1,663	2,149	1,949	1,549
Deferred Tax Liability	(240)	(169)	(142)	(142)	(142)
Minority Interest	-	-	-	-	-
Equity Share Capital	663	663	663	663	663
Face Value per share (₹)	10.0	10.0	10.0	10.0	10.0
Reserves & Surplus	3,961	5,474	6,697	8,166	10,011
Net Worth	4,625	6,137	7,361	8,829	10,674
Total Liabilities	6,706	7,631	9,368	10,636	12,082

Source: Company, LKP Research

Exhibit 10: Cash Flow Statement

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
PBT	592	1,839	1,550	1,922	2,413
Depreciation	384	402	387	488	582
Chng in working capital	120	(385)	(1,464)	(519)	(546)
Cash flow from operations (a)	1,284	1,702	137	1,583	1,991
Capital expenditure	(143)	(710)	(480)	(1,000)	(1,000)
Free cash flow	1,141	992	(343)	583	991
Chng in investments	(202)	(318)	80	(101)	(106)
Other investing activities	(811)	(479)	(336)	(1,000)	(1,000)
Cash flow from investing (b)	(1,013)	(797)	(256)	(1,101)	(1,106)
Dividend paid (incl. tax)	-	-	-	-	-
Interest paid	(194)	(137)	(108)	(175)	(149)
Others	102	(653)	138	(158)	(355)
Cash flow from financing (c)	(92)	(790)	31	(333)	(504)
Net chng in cash (a+b+c)	179	115	(88)	148	381
Closing cash & cash equivalents	369	479	395	538	914

Source: Company, LKP Research

Exhibit 11: Key Ratios

Y/E Mar	FY20	FY21	FY22	FY23E	FY24E
Per Share Data (in ₹)					
AEPS	11.4	24.1	19.7	21.7	27.2
CEPS	15.4	26.2	23.0	29.0	36.0
BVPS	69.8	92.5	111.0	133.1	160.9
DPS	-	-	-	-	-
Growth Ratios (%)					
Total Revenues	8.1	17.6	18.2	18.8	18.5
EBITDA	9.9	73.8	(2.5)	34.1	21.8
PAT	100.5	108.2	(14.3)	25.6	25.7
AEPS	100.5	108.2	(14.3)	25.6	25.7
CEPS	48.7	70.3	(12.1)	26.1	23.9
Valuation Ratios					
P/E	50.4	23.8	29.1	26.4	21.1
P/CEPS	30.6	18.0	20.5	16.2	13.1
P/BV	6.8	5.1	4.2	3.5	2.9
EV / EBITDA	37.0	20.9	21.7	16.1	12.9
EV / Sales	5.8	4.9	4.2	3.5	2.9
Operating Ratio					
Raw Material/Sales (%)	41.6	40.7	42.4	41.0	40.5
Other exp/Sales (%)	27.4	21.3	23.4	21.9	21.9
Effective Tax Rate (%)	(10.9)	26.2	25.0	25.2	25.2
NWC / Total Assets (%)	30.0	27.6	41.2	41.1	40.7
Inventory Turnover (days)	70.7	71.9	96.7	95.0	90.0
Receivables (days)	98.7	100.1	106.0	100.0	100.0
Payables (days)	37.4	33.5	29.2	30.0	30.0
D/E Ratio (x)	0.5	0.3	0.3	0.2	0.1
Return/Profitability Ratio (%)					
RoCE	10.1	27.7	19.8	21.0	22.6
RoNW	9.6	25.3	17.3	18.1	18.9
Dividend Payout Ratio	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0	0.0
PAT Margins	9.6	16.9	12.3	13.0	13.8
EBITDA Margins	15.7	23.3	19.2	21.7	22.3

Source: Company, LKP Research

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